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"PITTSBURGH PLUS"

BY

FRANK EMERICH

"Pittsburgh Plus"

A Comprehensive and Concise Treatise Upon This Notable Steel-Pricing Controversy, the Most Important Industrial Dispute of the Day, Presenting Fully the Claims and Arguments of Both Sides

By
FRANK EMERICH

[1923?]

The Associated States Opposing Pittsburgh Plus
1305 City Hall Square Building
139 North Clark Street
Chicago

Second Revised Edition

The Associated States Opposing Pittsburgh Plus
(THIRTY-TWO STATES)

1305 CITY HALL SQUARE BUILDING

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Preface

STEEL is king in industry today. It is the hub of most industrial effort, for this is "The Steel Age."

The following treatise explains a practice in the steel trade known as "Pittsburgh Plus," over which there is much controversy. This is, it is believed, the first attempt to present this subject in all its most important details.

So much interest has been awakened by the "Pittsburgh Plus" controversy recently, that it is thought desirable to make a presentation of this character.

So that the treatise may be thoroughly understood, certain information regarding the production of steel is desirable.

It is well to know that 85 per cent of all steel produced in the United States comes from mills located in Pennsylvania, Ohio, Indiana, Illinois and New York.

To indicate how the capacity of the leading steel producing districts is distributed over the country, the figures for fourteen leading groups are given herewith, these including 80 per cent of the nation's entire ingot production capacity.

District	Approximate Annual Ingot Capacity Gross Tons
Pittsburgh, Pa.	10,000,000
Chicago, Ill.	8,750,000
Youngstown, Ohio	8,250,000
Philadelphia, Pa.	4,500,000
Cleveland, Ohio	3,500,000
Buffalo, N. Y.	2,750,000
Johnstown, Pa.	2,000,000
Birmingham, Ala.	1,500,000
Baltimore, Md.	1,250,000
Pueblo, Colo.	1,250,000
Wheeling, W. Va.	1,000,000
Duluth, Minn.	500,000
St. Louis, Mo.	500,000
Pacific Coast	500,000

It is also desirable that the outline of the method of manufacture of the leading steel products be understood. The following will afford a sufficient explanation.

Ingot steel, from which all other forms of steel are made or "rolled," is poured from the furnace into removable receptacles, or molds, known as flasks. When the molten steel takes form within them, these flasks are removed and the steel is then known as ingots.

Ingots are re-rolled by elaborate machinery into several semi-finished forms including billets, blooms, slabs and sheet bars. These semi-finished forms are again re-rolled into finished forms of steel including structural shapes, I-beams, channels, angles, plates, bars, sheets, rails and several other forms. Steel pipe is rolled from a semi-finished form known as skelp. Wire is drawn from a semi-finished form known as wire rods.

These are the principal merchant rolled steel products, and since the process of rolling is used throughout their production, the term "rolled steel" is applied to them.

"Pittsburgh Plus"

THE watchword of American industry today is economy and efficiency of production and distribution. The nation has an outstanding position in the world, due to the war, but for this to be maintained it must utilize every possible factor which makes for efficiency and economy in industry.

The world abroad is chaotic, but this chaos must end, sooner or later. When it does, America will face the keenest competition it has ever known in the world's markets, and even at home, for Europe will be eager to repair the havoc wrought by war and post-war conditions.

Self-complacency, born of isolation from the world's recent turmoil, will then no longer permit any practices which do not strictly comport with the utmost efficiency in industry. Even today it is apparent that this country, to maintain its present position and insure its future, must put its industrial house in order and so arrange its industries that they will stand the test of the severest competition.

We are now a creditor nation, where formerly we were a debtor nation. Debts to us must be paid largely in goods. That is conceded.

We must seek the markets of the world for our surplus. That also is conceded.

Therefore, it is essential for us to pay the closest possible attention to every factor which enters into productive industry; to take strict account of our present industrial practices to see if they are the best adapted to present and future exigencies, and to divest ourselves of any customs or practices which hamper or threaten to hamper our industrial efficiency.

While leaders of industry have various solvents to offer for present problems, and numerous theories as to our most advisable future course, they are all agreed upon these fundamentals.

The Age of Steel

Among the industries in which this nation today holds unquestioned leadership steel is one of the foremost. This period of our history could, with absolute justification, be termed "The Steel Age," for steel plays a leading part in the entire industrial scheme of the world. Therefore, anything which pertains to the steel industry is of paramount moment, and any practice prevailing in that industry which threatens to impair its utmost efficiency is not only of grave import to the industry itself but to the entire nation.

Five years ago the term "Pittsburgh Plus" would have fallen with a strange sound upon the ears of anyone not connected with the steel trade. Today, throughout a considerable section of the country—and in ever-growing measure—this term has become quite familiar.

That is because a vast amount of public sentiment has been awakened regarding "Pittsburgh Plus," due in a large degree to the activities of many organizations which are up in arms against it, and to a great lawsuit now pending before the Federal Trade Commission, having for its purpose the abolition of this practice.

"Pittsburgh Plus" is that practice in the steel industry by which all rolled steel (except rails)—regardless of where made—is sold at a delivered price, which consists of the mill price at Pittsburgh plus the amount of the freight from Pittsburgh to destination.

The difference between the amount of "freight" included in the selling price and the actual freight paid to the railroads for transporting the steel is the "plus". This "plus" goes into the pockets of the steel mills.

As an illustration of the working of "Pittsburgh Plus," the case of a fabricator or manufacturer of rolled steel products in the city of Chicago may be taken. If such a manufacturer or fabricator bought a carload of steel at South Chicago or at Gary, Indiana, only a few miles distant, and hauled the steel away in his own trucks, the price he would pay the mill under "Pittsburgh Plus" would include $6.80 per ton "freight from Pittsburgh," an amount equal to approximately 14 per cent of the price of the steel.

At Duluth, Minnesota, where there is also a large steel mill, the local fabricator would pay $12 per ton unearned freight charge; at Pueblo, Colo., $24 per ton; at Cleveland, Ohio, $4.30 per ton; at Buffalo, N. Y., $5.30 per ton; at Johnstown, Pa., $1.90 per ton; at Sparrow's Point, Md., (Baltimore district) $6 per ton; at Bethlehem, Pa., (Philadelphia district) $5.40 per ton; at Youngstown, Ohio, $1.90 per ton, and at Wheeling, W. Va., $1.90 per ton. At Birmingham, Ala., he would pay $5 per ton.

No Actual Freight Paid

This hypothetical load of steel, of course, was never hauled from Pittsburgh to any of these points and no actual freight charge, therefore, was ever incurred. For this reason the freight charge included in the delivered price under the "Pittsburgh Plus" system has often been referred to as "fictitious," "imaginary," "mythical," or "phantom."

"Pittsburgh Plus" is defended by all of the steel mills. All of them profit by it, not only the United States Steel Corporation, but all of the so-called independent mills, including the Bethlehem Steel Company; the Youngstown Sheet and Tube Company; the Jones and Laughlin Steel Corporation; the Republic Iron and Steel Company; the Inland Steel Company, and all of the smaller steel producers.

"Pittsburgh Plus" is vigorously assailed by numerous organizations of steel fabricators and manufacturers of commodities made from steel; also by practically all farmers' organizations, numerous commercial clubs, thirty-two sovereign states, many municipalities, the National Association of Purchasing Agents and its local component bodies, and by the ultimate consumer who eventually, of course, pays the "plus."

Claims of Both Sides

In support of "Pittsburgh Plus" the steel mills advance a number of arguments representing their point of view, all of which are embraced in the following:

1. It has been in existence practically throughout the life of the steel industry in America.

2. It is not of their own devising but results from the operation of an economic law—the law of supply and demand.

3. That Pittsburgh is the only district of "surplus production," and that all other steel centers, especially the Chicago district, are often unable to supply the demands made upon them.

4. That because of the working of this economic law, "Pittsburgh Plus" automatically disappears when supply exceeds demand.

5. That it is essential to the stabilization of the steel industry.

6. That the steel industry has been built up under and because of it, this including not only the steel mill interests, but the interests of the manufacturers of articles made from steel.

7. That without the added profit obtained through the "Pittsburgh Plus" practice, high cost mills necessary to provide sufficient steel to meet the nation's demand in "flush" times, would be forced out of business.

8. That no new mills would be built in the west if "Pittsburgh Plus" were abolished.

9. That the only result of the abolition of this practice would be the impairment of existing investments in and about Pittsburgh and the enhancement of investments elsewhere.

10. That the abolition of "Pittsburgh Plus" would be productive of no general benefit to industry and would not affect the country's total production of steel.

11. That objectors seek only to benefit by obtaining greater profits for themselves at the expense of the mills and that these profits would not be shared by the general consuming public.

12. That because of its long existence "Pittsburgh Plus" is a recognized factor in the steel trade and the steel industry would be in a chaotic condition if it were abandoned.

13. That the Pittsburgh market and "Pittsburgh Plus" exist because of Pittsburgh's advantages as a point of production and distribution.

14. That the practice does not discriminate against competitors or restrain competition and is therefore legal and unassailable.

Opposing the Practice

Those urging the abolition of "Pittsburgh Plus" ask that rolled steel be sold f.o.b. mill, at a price based on the cost of production, plus a fair margin of profit. In assailing the "Pittsburgh Plus" practice its opponents deny entirely the claims of the mills and in their own behalf assert:

1. That "Pittsburgh Plus" is not the result of the economic law of supply and demand, but that it is arbitrary and man-made, and can be adjusted to suit the convenience of the mills.
2. That it exists only because of the close control of the steel industry.
3. That it was not general practice until after the United States Steel Corporation was formed in 1901, when control became easier.
4. That in 1908, a year of depression, it did not disappear, but was kept in force by agreement.
5. That Pittsburgh is not the point of surplus production on all forms of rolled steel.
6. That it does not effect real stabilization of the steel trade in times of business depression, when stabilization is needed.
7. That its only "stabilizing" effect is to "stabilize" selling prices on so high a level that mills can profitably ship into the normal trade territory of their competitors.
8. That it is merely a price-fixing device.
9. That in the case of pig iron and rails no such device exists or is necessary, and therefore it is unnecessary with any rolled steel products.
10. That it hinders the construction of new mills.
11. That it upbuilds industry in and about Pittsburgh, merely to conserve Pittsburgh investments to the detriment of the rest of the country.
12. That because of it the rest of the country is made artificially and uneconomically tributary to Pittsburgh.
13. That it centralizes the steel industry in a place not best fitted economically for steel production and fabrication.
14. That it checks the diffusion of industry, and is therefore harmful to the nation's industrial life.
15. That it prevents many localities from utilizing their superior natural advantages for the economical production, fabrication and distribution of rolled steel.
16. That it prevents free competition, both in basic steel and in commodities made from steel, and is therefore unlawful and harmful.
17. That it injures agriculture by causing higher prices for farm implements and all other rolled steel products used on the farm.
18. That it also injures the farmer by restricting industrial development nearby, and thus pre-

venting him from enjoying the stabilizing effect of a nearby home market on the price of his products.

19. That this practice, carried into general effect in all industry, would result in unwarranted raising of all commodity prices and would tend to bring the control of industry generally into a relatively few hands.

20. That it tends to promote inefficiency because of removing the incentive of proper competition.

21. That it taxes the transportation system of the country by promoting "cross hauling."

22. That it entails an uneconomic and unwarranted burden of from $75,000,000 to $100,000,000 a year upon the general consuming public.

Origin of Practice

The mills assert that "Pittsburgh Plus" grew up naturally, with the development of the steel trade, and was always a recognized factor.

This is denied. It is asserted that several other price-fixing devices preceded it; that steel was first sold f.o.b. mill; that this was succeeded by "zone basing" and other price-fixing schemes, and that finally "Pittsburgh Plus" was introduced.

Very little steel, except rails, was made in this country prior to 1884. With the use of steel as a building material, about 1884, there was an acute demand for merchant rolled steel and its manufacture grew apace. Conditions in the steel trade at that time were necessarily unsettled. The Carnegie company, of Pittsburgh, dominated the field and early in the history of the trade various associations were formed which parceled out the business and, in effect, fixed the prices.

This condition obtained for several years and was followed by an era of pools, associations, "gentlemen's agreements" and other price-fixing devices.

Within the period from 1890 to 1900 the various manufacturers of rolled steel—who had increased considerably in number—agreed upon a system of so-called "zone bases," by which the country was divided into zones and uniform prices set for each zone.

A Different System

This, however, was not "Pittsburgh Plus" as it exists today, or even an approximation of it. This is shown by the testimony of Col. Henry P. Bope, former sales manager of the Carnegie Steel Company, a subsidiary of the United States Steel Corporation, given in the pending case, as follows:

Q. Before that time (1880) what was the practice?

A. **The practice was generally to quote f. o. b. mills. Every mill was a law unto itself.**

Q. And the difference in prices between the mills, did that amount to the freight rate, or was it entirely independent?

A. **Each mill made whatever price seemed necessary to take the business.**

Q. Was that price dependent upon the difference in rates from Pittsburgh at that time?

A. Not always. It was based upon market conditions, upon demand, upon the location of the building where this material would be used, and various other elements which entered into market conditions.

Q. Was the freight rate to Pittsburgh the guiding basis, by which those prices were made?

A. To an extent only, because in the west it did not make any difference what prices were made. In the east it did make a little difference, although freight rates were so low in those days that the freight differential was immaterial. For instance, the freight rate into Chicago in those days was only 15 cents per hundredweight, while today it is around 35 cents.

Q. Was this time you speak of in 1880 the first time, as far as you know, that the Pittsburgh basing system was established?

A. As far as I know, the first time, except that the Pittsburgh mills always quoted the Pittsburgh price, of course.

Q. But the other mills did not quote Pittsburgh basis prior to that time?

A. No sir.

Zone Bases Used

Following this first "pooling arrangement," according to Col. Bope's testimony, the mills decided upon a "zone base" for fixing prices. This also was partially, but not entirely, based upon the Pittsburgh price, as is shown in the following excerpt from his testimony:

> "After a time they decided upon a zone method of fixing prices. They parceled out the country, taking an average freight rate and using Pittsburgh as a basing point, they made prices to cover the entire country. They were based in such a way that all the mills would have an equality of competition."

Col. Bope showed specifically that while Pittsburgh was taken as a point of computation for prices, the system was not "Pittsburgh Plus," as it is known today. His testimony on this point is as follows:

> "The method of arriving at those zone prices, after the zones had been established, was to take the price f. o. b. Pittsburgh, and make an average price based upon the average rates of freight into those zone territories, **but they were not exactly the freight rates,** because in that case anything west would have been discriminating against the eastern plants, which it was not the intention of doing. It was a kind of brotherly love institution in those early days and the desire was to have everybody get his fair share of the business, and that was the basis upon which zone prices were established, to permit every mill to get its fair share of business in any particular zone in the country."

Col. Bope then showed that a steel bar association was formed about 1897 for the purpose of fixing prices. This he stated to have been something in the nature of a "gentlemen's agreement."

The System Established

With the coming into being of the United States Steel Corporation in 1901, however, all this was changed and by 1904 "Pittsburgh Plus" became almost a hard and fast rule in the trade on nearly all forms of rolled steel. In 1906, pools and agreements were declared illegal, and then the famous "Gary dinners" were given monthly by Judge E. H.

Gary in New York. These were usually attended by the heads of the steel industry—both of the United States Steel Corporation's subsidiaries and the heads of independent mills—and they also had a definite influence in fixing prices, as well as in determining other problems of the steel trade. These dinners were discontinued shortly before the famous "dissolution suit" against the United States Steel Corporation was begun.

The opponents of "Pittsburgh Plus" contend this proves that it was only when the steel industry really came under close control, which was with the advent of the United States Steel Corporation, that "Pittsburgh Plus" as it exists today, was made possible. They assert that this shows conclusively it is not an economic law which is responsible for the practice, but that it is a man-made law, a dictum from those in control of the industry, and that therefore the defense of economic stress is utterly untenable.

Supply and Demand

The principal reliance of the mills in justification and defense of the "Pittsburgh Plus" practice is upon the theory that it is the result of a natural economic law—the law of supply and demand.

This is stated in so many words by Judge E. H. Gary, chairman of the board of directors of the United States Steel Corporation, in his testimony before the Federal Trade Commission, in which he said:

> "I think I am sufficiently acquainted with the history of the thing to know that this Pittsburgh basing proposition is not the result of any combination, or any illegality, but grew up naturally; has been maintained naturally, and has largely disappeared naturally, because of competition. This law of supply and demand has brought it about."

The mills contend that the Pittsburgh steel district is the country's surplus producer of steel. They assert that it produces far in excess of its own normal requirements and that in normal times other steel producing districts draw upon it to supply their own deficiency.

Due to this, say the mills, steel that is actually bought in Pittsburgh because of insufficient supply elsewhere must be sold at the Pittsburgh mill price plus the actual freight tc destination. Steel produced elsewhere than at Pittsburgh, the mills say, is also charged this freight, to "equalize" the charge made on purchases at Pittsburgh by those compelled to buy there because of shortage in their own districts. That is, the mills admit that the unearned freight charge is made, but they claim this should not be considered in the light of a freight charge at all but as a necessary component element of the price, and they also claim they are therefore entirely and justly entitled to this additional price element.

To illustrate this, the mills assert that the Chicago district, which is the second largest steel producing district in the country, in normal years calls upon Pittsburgh for a considerable portion of the steel that it requires. Thus, they say, if Chicago were a basing point, the early purchasers of

steel in or near Chicago would buy their steel at one price, and, after the Chicago supply was exhausted, the later purchasers would have to buy in Pittsburgh and pay the Pittsburgh mill price plus the actual freight from Pittsburgh. Therefore, the mills say, they sell all rolled steel "Pittsburgh Plus," so as not to discriminate between customers.

This "supply and demand" theory is also sometimes referred to as the "surplus production" theory. This is because it rests upon the claim that Pittsburgh is the point of surplus production. The mills admit, in their argument, that when any other considerable producing district is able fully to supply its own needs, then, under the normal operation of the economic law they invoke to justify "Pittsburgh Plus," the practice should—and they claim, does—disappear.

Deny Mills' Theory

The opponents of "Pittsburgh Plus" deny both the facts upon which the steel mills base their theory and the tenability of the theory itself.

They deny that "Pittsburgh Plus," as applied to steel, is the working of a natural economic law, and proceed to show that it is merely a price-fixing device, devised by the mills themselves for their own convenience and profit. In support of this they cite the testimony of Col. Bope, in the pending case. In reply to a question as to whether the Pittsburgh basing system was established because of economic law, Col. Bope stated:

> "You always have to have some basis from which to start to build up a proposition. Here was a tremendous industry that was growing by leaps and bounds, that even was getting almost out of the control of the men who were connected with it, and they took what they thought to be the best means at hand in order to stabilize the industry, to get the best results from it, and that, to my mind, is about the main reason why Pittsburgh was chosen, because it was central, because it had been the steel center for many years, because it had the largest mills, dominating the general industry, and it seemed to be a very natural thing to do. Chicago was too far away, and it was not the steel center in those days, and the eastern mills were so scattered that you could not make a basing point at Philadelphia, or Passaic, or Trenton, or Paterson, where these mills were located, so Pittsburgh was the logical point on which to base prices."

A Man-Made Law

In reply to another question as to whether the law of supply and demand had anything to do with the Pittsburgh basing system, Col. Bope testified,

> "I would put it this way: The law of supply and demand is a natural law. There is no control over it really by any man-made proposition. **I should say that the "Pittsburgh Plus" system was a man-made proposition,** necessitated by chaotic conditions in the steel market, which seemed to render it the only available means of stabilizing the industry."

The opponents of "Pittsburgh Plus" insist that the real reason for the practice is found in the fact that the great steel mills of the country, not necessarily by concerted agreement, substantially act in concert on all matters affecting prices. In support of this contention they instance further testimony by Col. Bope, as follows:

Q. Now, after 1909, coming down through the period of 1910, 1911, 1912, 1913 and 1914, you say that there was a substantial uniformity of prices between the Carnegie Company and all its competitors with mills located in the Pittsburgh district during that time, for instance.

A. Yes; that was upon certain items. There was a pretty general uniformity. It was not adhered to by virtue of any agreement, but for the purpose of keeping a stabilized market. Conditions were bad during some of those years and the only way that absolute demoralization was prevented was by taking that stabilizing of prices due to a precedent (Pittsburgh Plus) which had worked in the past and was used at that time, although there was no concert of action.

Other testimony of Col. Bope is also cited as showing that "Pittsburgh Plus" is a man-made rule, rather than an economic law.

> "The mills themselves felt that the proper thing to do was to have a basing point. They all decided on this. It was an established thing for the benefit of the industry, just as almost all associations of one kind or another, in any kind of business, get together and have certain legislation for the benefit of the whole. * * * * * But now there are other steel centers, which perhaps have as preponderating manufacture as Pittsburgh. You cannot always maintain a state of affairs and have it exactly the same as it was and has been for ten or fifteen or twenty years, because new situations arise."

Determined by the Mills

And to show further that "Pittsburgh Plus" owes its existence to the dictum of the mills rather than to an economic law, the following testimony of Col. Bope is cited:

> "My recollection is that it (the resumption of the 'Pittsburgh Plus' practice after a brief lapse) was done for two purposes: First, to get a general stabilization of the whole steel market, and second, **because there was an increment of freight there which could be obtained that was natural and part of the profits."**

The Chicago Situation

The situation at several other points of steel supply is also cited by the opponents of "Pittsburgh Plus" to show that the contention of the mills that this practice rests solely upon the law of supply and demand, or the surplus production of the Pittsburgh steel district, is fallacious.

It is pointed out that the Chicago steel district—which roughly embraces the city of Chicago and its immediately adjacent territory in northern Illinois and northwestern Indiana—seldom or never, in normal times, produces a quantity of steel closely approximating the rated producing capacity of its mills. It is further pointed out that the actual production of this district bears an almost definite and constant ratio to the country's entire production, which is worth inquiring into.

In spite of the increase in capacity in the Chicago district, its proportion of actual production to the actual production of the country, has been, over a term of years, a pretty constant factor.

This would seem to indicate that there is at least an implied understanding that the mills in the Chicago district shall not produce beyond a certain point, and this gives rise to the suspicion, at least, that the steel mills do not permit production in the Chicago district to approximate capacity too closely.

Therefore, if this suspicion is justified—and it is claimed the actual facts and figures afford ample justification for it—it goes to demonstrate that there is actual regulation by the mills of the flow of steel supply in relation to demand, and this proves that the whole matter is one of artificial control and not of economic law.

Situation in Birmingham

An even more striking illustration that "Pittsburgh Plus" is an artificial and man-made device and not the result of economic law, is afforded by the case of Birmingham, Alabama.

Birmingham is admittedly a point of surplus production, as it produces much more steel than its normal trade territory requires. Nevertheless, steel is nowhere sold "Birmingham Plus."

Were Birmingham unable to supply the normal requirements of its trade territory, then—according to the theory of the mills—purchasers of steel in that territory should and would be obliged to pay the Pittsburgh mill price, plus the full freight from Pittsburgh.

However, Birmingham purchasers do not pay the full "Pittsburgh Plus." The United States Steel Corporation is admittedly in complete control of the Birmingham situation, since it controls almost all of the steel production there. As a sort of special concession to Birmingham by the corporation, the full "Pittsburgh Plus" of $11.60 is not charged, but steel is sold at the Pittsburgh price plus an arbitrarily fixed differential of $5 per ton.

Birmingham Price Arbitrary

That the Birmingham price is arbitrary was practically admitted by Judge Gary in his testimony in the pending case, as follows:

Q. The Birmingham price is purely arbitrary, is it not?

A. What price?

Q. The price at Birmingham, which is the $5 differential above the Pittsburgh price.

A. I think it is. That is my impression, that it is arbitrary in the sense of the producers insisting upon it, probably, and the consumers consenting.

Q. That price is not fixed by the law of supply and demand down there at Birmingham, is it?

A. I cannot answer much about that, because I have already admitted that I do not remember in regard to it. I might make a mistake.

This situation, the opponents of "Pittsburgh Plus" point out, is utterly impossible if the contention of the mills that "Pittsburgh Plus" is due solely to the workings of economic law is correct. No such thing as an arbitrary differential can be established or maintained unless those who establish it are in absolute control over conditions. Economic law takes no account of arbitrary differentials. Manifestly, it cannot do so. Therefore, so far at least as Birmingham is concerned, the economic law which the mills invoke in support of this practice, is inoperative.

If the law does not operate in one place, it can hardly

be inexorable, and this indicates that the practice is one which can be and is fixed at will and is not solely dependent upon economic law.

Controlled by Mills

That the Birmingham situation is the result of control is shown both by the testimony of Col. Bope in the pending case, and by minutes of the Carnegie Steel Corporation, introduced in evidence in the famous "dissolution" suit brought against the United States Steel Corporation some years ago. This shows that the question of making Birmingham a basing point for steel was discussed at many meetings of the directors of the Carnegie company. This followed agitation started by a manufacturing concern in Knoxville, Tennessee, which had circularized other manufacturers in the south asking them to stop dealing with the Tennessee Coal and Iron Company—the United States Steel Corporation's Birmingham subsidiary—until Birmingham was made a basing point.

The sales manager of the Tennessee Coal and Iron Company strongly urged that this request be granted, but Judge Gary, at one of the meetings, suggested that **"the matter be gone into carefully from the standpoint of the results to ourselves, and that it then be given full consideration."** He added his belief that **"it will eventually be thought adviable to make both Chicago and Birmingham basing points."**

This matter was discussed at several meetings and William E. Corey, later president of the United States Steel Corporation; Charles M. Schwab, its then president, and others took leading parts in the discussion, all of them opposing the granting of the Birmingham request.

Concession Is Made

While this request was never granted in full measure, a concession was later made which substituted an arbitrary differential of $3 per ton at Birmingham for the full "Pittsburgh Plus" charge, and with the increase of freight rates in 1920, this differential was increased to $5 per ton.

These minutes and the actual facts strongly suggest not only that the United States Steel Corporation, and not an economic law, controls the Birmingham situation, but that on the statement of Judge Gary himself, the corporation has it within its arbitrary power to make both Birmingham and Chicago basing points for steel. If this be true, the economic law theory necessarily falls to the ground.

Situation at Duluth

Duluth is another producing point worthy of special consideration. The United States Steel Corporation has a subsidiary, the Minnesota Steel Company, which operates a mill of considerable size there. Although its officials contend that production costs at Duluth are high and that the Duluth mill could not operate without obtaining the additional price granted by the "Pittsburgh Plus" practice, superficially it would seem that Duluth is well situated for the production of steel, and it is contended by Duluth interests that steel can be produced there economically.

Duluth is closer to the actual iron ore than any other steel producing center in the north. Nearly all of the iron ore used by northern steel mills is hauled to Duluth by railroad and shipped from there to these various other mills.

The Duluth labor situation is said to be good, and the principal other elements entering into the production cost—coke and limestone—while they must be hauled a long distance, can be hauled cheaply by water.

The "Pittsburgh Plus" charge at Duluth is $12. Even granting that the producing cost at Duluth is higher than at Pittsburgh and other points, this tremendous differential, the Duluth interests claim, is far greater than any possible difference in production cost.

A Surplus Producer

The point is also made that more than half of the Duluth mill's product is shipped in a semi-finished form to mills in Wisconsin, Illinois and Indiana for re-rolling into finished forms. This means that the Duluth mill absorbs a great deal of the freight differential. This would tend to indicate that Duluth produces more steel than its trade territory requires and is therefore a point of surplus production. On the contention of the mills that districts of surplus production fix the price, then, without regard to cost of production at Duluth, steel prices should be based—for that territory, at least—upon Duluth. Nevertheless, Duluth steel purchasers pay the full "Pittsburgh Plus."

There are also similar anomalies at other points of production. Cleveland, Buffalo, Youngstown and other producing centers, probably produce more steel than their actual trade territory requirements, yet in each case, "Pittsburgh Plus" is charged.

Atlantic Seaboard

On the Atlantic seaboard there are several mills, the largest being at Bethlehem, a short distance outside of Philadelphia, and at Sparrow's Point, Maryland, a short distance outside of Baltimore. Both are owned by the Bethlehem Steel Company.

A great deal of steel is shipped into the territory normally tributary to Bethlehem, much of it coming from Pittsburgh, yet Bethlehem ships into Pittsburgh and also into the west. This goes to prove that no reliance can be placed upon the fact that Pittsburgh ships considerable steel into other districts.

It seems clear that the so-called Pittsburgh market is an arbitrary one and the basing of prices upon that market is also arbitrary. If it can be shown that this arbitrary practice works a hardship and disadvantage to the entire country, restrains competition and handicaps industry, then the case against the practice is complete and the justification of economic law is shown to be futile.

Points of Surplus Production

There is cumulative evidence on this point when the making of various steel products is considered. It is shown, for illustration, that Pittsburgh is not the point of surplus production of steel sheets, but that these are produced

mainly in Ohio. Ohio produces approximately 56 per cent of all of the steel sheets made in the United States. The entire state of Pennsylvania produces annually only 21 per cent, on the average.

Yet, steel sheets are consistently sold "Pittsburgh Plus." Why should this be if the economic law invoked to justify "Pittsburgh Plus" rests upon the "surplus production" theory?

The case of wire and wire nails is even more striking. The average annual production of wire nails in the entire country is 12,000,000 kegs. The western capacity for the production of nails is over 7,000,000 kegs annually. The "surplus production" theory cannot have relation to wire nails, since the west has the capacity to produce 60 per cent of the country's entire production and uses by no means this amount. But the west must nevertheless pay the "Pittsburgh Plus" impost on all nails it consumes.

Pig Iron

More striking illustrations of the curious workings of this economic law are afforded by consideration of pig iron and steel rails.

Neither of these products—both closely related to rolled steel and presumably conforming to the same economic laws—seems subject to this law.

Pig iron is produced throughout the country in hundreds of furnaces, largely under separate ownership. This production is not subject to as close control as that of steel.

There is no hard and fast rule for price-fixing on pig iron. It is usually sold f.o.b. furnace, or point of production.

What mysterious economic process attaches itself to pig iron by which it is sold upon one base before entering a converter, and upon another when it emerges from the converter as steel? Manifestly, if the law of supply and demand theory holds true in steel, it must hold true also in other basic commodities, and certainly in a basic commodity so closely related to steel as is pig iron.

Attempts have been made to sell pig iron on a single Birmingham base, or "Birmingham Plus." Owing to the number of independent furnaces operating without close business relations with each other, it is, however, practically impossible to dictate rules of practice for the sale of this commodity. Since pig iron is sold "furnace base," or "f.o.b. furnace," the opponents of "Pittsburgh Plus" insist this proves definitely that "Pittsburgh Plus" does not owe its existence to economic law, but to control by the dominating steel producers.

Rails

The case of steel rails is perhaps even more illuminating. Pittsburgh, admittedly, is not the surplus producer. The greatest production center for rails is the Chicago steel district.

The annual tonnage of rails produced by the mills is enormous. On the "surplus production" theory, therefore, Chicago should be the basing point on steel rails. That is, they should be sold "Chicago Plus." But this is not the case. Neither are they sold "Pittsburgh Plus." In fact,

steel rails are sold "mill base," or "f.o.b. mill," or point of production.

The opponents of "Pittsburgh Plus" assert that rails are sold on a mill base because the railroads refuse to buy them on any other basis. They say the railroads know all about basing points and mythical freight rates and decline to pay any freight except that which is earned. They say further that in the event it was sought to impose the "Pittsburgh Plus" charge upon rails, the railroads would solve the problem by buying their rails in Pittsburgh and getting the benefit of the actual haul. But, since the railroads decline to submit to this exaction, the "law of supply and demand" very graciously steps aside and permits the roads to purchase their rails in the same manner in which most commodities other than steel are bought.

This contention seems to be upheld by the evidence in the pending case, both from the testimony of Col. Bope and Judge Gary. Col. Bope admitted the fact in his testimony, which was partly as follows:

> Q. How are rails based?
>
> A. I don't know how rails are sold today; I imagine they are sold f. o. b. mill, but in the old days there was a Pittsburgh price. They did not take the full freight, however, there was a differential, which was of benefit to the railroads. They were not handicapped by being made to pay full freight rates. The idea of the steel mills has always been to cater to the railroads. * * * * *
>
> Q. Were the Chicago mills pretty large producers of rails at the time you speak of, there being a higher price for rails?
>
> A. **Yes; Chicago always has been the largest producer of rails in the country.**
>
> Q. What is the reason that rails are not sold on the Pittsburgh basis?
>
> A. Because the customers are so widely distributed, the railroads run from different sections of the country, and they reach different markets, and it was never felt that they should be put on the basis of ordinary customers.
>
> Q. What is the difference between them and the ordinary customer?
>
> A. The reasons I have given, the desire on the part of the mills to at all times help the railroads in their expansion and growth, and because of the fact that for so many years the railroads took 75 per cent of the steel product of the country.

Fixing Rail Prices

Judge Gary also admitted, in effect, that rails operate under a different system from other forms of rolled steel. His testimony was in part as follows:

> Q. Was there any other period outside of that which you have just mentioned where the rail mill producers did not have uniform prices?
>
> A. Well, I might answer that question this way: Perhaps it would be fair to say that for a great many years the same price was maintained by the railroads generally. The price of $28 was fixed, I should think, about 1899, and that was really by agreement between Mr. Cassatt (A. J. Cassatt, president of the Pennsylvania Railroad Company) and myself. That was considered to be a fair price. Then Cassatt spoke for a great many railroads and that price was maintained, that $28, for a great many years, because we refused to advance the price, notwithstanding that it should have been a great deal higher on rails.

Q. Did the railroads refuse to pay the "Pittsburgh Plus" charge on rails?

A. I don't think the "Pittsburgh Plus" question ever came up with them.

This presents an interesting problem. The testimony of Judge Gary shows conclusively that the steel mills had it in their power to fix prices at their pleasure, even before the present-day consolidations of steel mill interests made control easier. He shows this in his testimony to the effect that he, on behalf of the mills, and Mr. Cassatt, on behalf of the railroads, made an arbitrary price of $28 per ton on rails.

Col. Bope showed that Chicago has for many years been the point of surplus production on rails. Yet, he showed that rails were for a considerable time sold on a modified "Pittsburgh base," and later, according both to Col. Bope and Judge Gary, they were sold f.o.b. mill, at a fixed price for all mills.

How does this square with the law of supply and demand which the mills protest is solely responsible for "Pittsburgh Plus?"

Does it not show that the entire practice is arbitrary and under the absolute control of the mills?

Steel Mill Capacities

Since the mills base their defense of "Pittsburgh Plus" upon the "surplus production" theory, an inquiry into the relative producing capacities of the various steel districts is pertinent.

Production and consumptive figures are solely in possession of the mills, which do not give them out. Nevertheless, it is possible to obtain the rated capacities of the various steel mills of the country through official publications, and these throw considerable light upon the subject.

As already shown, Pittsburgh is not the point of surplus supply on steel sheets, this being somewhere in the state of Ohio. Ohio also produces the greatest quantity of strip steel of any state. Pennsylvania has never been the surplus producer of concrete reinforcing bars. The west produces from 40 to 45 per cent of this product. Pittsburgh is not the point of surplus supply of wire and nails. In the case of rails, Chicago is the point of surplus supply, but rails are not sold in the same manner as other steel products. Chicago also admittedly produces a huge quantity of merchant bars, probably a surplus.

Careful study of mill capacities, therefore, shows that Pittsburgh is no longer the point of surplus production on all steel products. On the other hand, there is evidence that in "flush times," Pittsburgh mills are usually the first to fill up with orders, the point of greatest consumptive demand being in the east. Consequently, in such times Pittsburgh has no "surplus" from which to supply deficiencies elsewhere.

It is hard to determine the point of surplus production. It is extremely doubtful if there is such a thing as "a point of surplus supply" for the entire country. Pittsburgh once occupied that position, but does so no longer. This is shown by the following testimony of Col. Bope:

"But now there are other steel centers, which are perhaps as preponderating in manufacture as Pittsburgh. You cannot always maintain the state of affairs and have it exctly the same as it was and has been for ten, fifteen or twenty years, because new situations arise."

Steel Mill Consolidations

The opponents of "Pittsburgh Plus" assert that if this practice is upheld by the courts and not disturbed by congressional action, the system will be more firmly fastened upon the country than ever.

That is because the steel industry, now strongly controlled by a relatively few organizations, shows constant indications of coming under still closer and firmer control. The closer the control, the more effective the agency for price dictation.

The formation of the United States Steel Corporation itself eliminated much competition and enabled the mills to impose "Pittsburgh Plus" as general practice. If other great mill mergers are consummated—and there are constant rumors of them—competition will be still more greatly lessened.

At present four organizations, taken together, easily control the entire industry. Only a year and a half ago there was a great merger consummated—that of the Bethlehem and Lackawanna corporations, which shortly afterward acquired the Midvale Steel and Ordnance Company, which a few years prior thereto had absorbed the Cambria Steel Company. The Youngstown Sheet and Tube Company, in another merger, acquired the Steel and Tube Company of America.

In 1922 reports of mergers filled the air. A merger of seven large independent producers was being negotiated, these being the Republic Iron and Steel Co., the Midvale Steel and Ordnance Co., the Lackawanna Steel Co., the Youngstown Sheet and Tube Co., the Inland Steel Co., the Steel and Tube Company of America and the Brier Hill Steel Co.

Mergers Effected

This fell through, whereupon the merger of the Bethlehem and Lackawanna companies was effected. This was shortly followed by a three-company merger, the Republic, Inland and Midvale companies combining into what was known as the North American Steel Corporation. Complaints against both the Bethlehem-Lackawanna and North American mergers were filed by the Federal Trade Commission. As a result, the North American company disintegrated. The Bethlehem-Lackawanna consolidation then absorbed the Midvale company. Still later, the Youngstown Sheet and Tube Company absorbed the Steel and Tube Company of America and the Brier Hill Steel Company.

Thus, within the past two years four strong independent steel producers, the Lackawanna, Midvale and Brier Hill companies and the Steel and Tube Company of America, have been withdrawn as independent entities.

Control Is Close

As showing how close is the present control of the country, the following table of ingot capacities of the leading producers is edifying:

Company	Annual Ingot Capacity Gross Tons
United States Steel Corporation	22,500,000
Bethlehem-Lackawanna-Midvale Consolidation	8,000,000
Youngstown Sheet & Tube Company	3,000,000
Jones & Laughlin Steel Corporation	2,640,000
Republic Iron & Steel Company	1,395,000
Inland Steel Company	1,200,000

This means an ingot capacity of 38,735,000 tons, out of a total capacity for the entire country of approximately 56,000,000 tons, or about 70 per cent, held in the hands of six producers. If this tendency toward consolidation is carried further, control will be vested in still fewer hands, and the fear that "Pittsburgh Plus" will be saddled forever upon the nation seems well founded, regardless of economic conditions or changes.

Basing Points in Other Industries

Another pertinent inquiry in this controversy is with reference to customs in other industries. On the "surplus production" theory of the mills, if Pittsburgh is the sole basing point for steel because of the rigid demands of an economic law, then there should be a single basing point in every other industry where like conditions obtain.

Assuming Pittsburgh to be the point of surplus steel supply, then any other industry in which there is a preponderating point of supply would necessarily be responsive to the same economic law.

It has been shown that this so-called "economic law" does not apply to pig iron and rails, although Birmingham is perhaps the greatest source of surplus supply of the former, and Chicago is undoubtedly the point of surplus supply of the latter commodity.

Cement, lumber, sugar, oil, grain and certain other commodities have their prices based on certain points. In most cases there are several such points and in several instances—such as cement—there is a system of so-called "zone bases," by which the country is divided into zones and the prices in each zone are based upon a point approximately in the center of it. All of these are more or less convenient methods of price-fixing.

In this connection it is interesting to note that the United States District Court of the Southern District of New York, in a decision rendered October 23, 1923, by District Judge Knox, held illegal "The Cement Manufacturers Protective Association," including the leading manufacturers of cement. Judge Knox based his decision in part upon the fact that cement was charged for at a delivered price, including the rail freight from a basing point, which failed to give purchasers the advantage of cheaper transportation.

Operates to Raise Prices

"Pittsburgh Plus" carries this price basing theory to the final degree. The "Pittsburgh Plus" controversy involves

the entire question of basing points in industry. Should the present practice be upheld by the courts and not disturbed by legislative action there is excellent ground for the belief that a vast change in pricing methods is imminent. This change would put the consumer largely at the mercy of the producer and would unquestionably result in a higher level of commodity prices, especially in times of keen demand. There is no doubt that "Pittsburgh Plus" operates to raise prices. This was admitted by Judge Gary in his testimony, in which he states:

> "'Pittsburgh Plus' when it is in force, of course, makes steel cost more."

Further evidence that "Pittsburgh Plus" operates to increase prices was recently afforded from an unexpected source. The Interstate Commerce Commission, passing upon an application for increase in rates on steel from the Pittsburgh-Buffalo territories and territories east, to Virginia cities and points taking the same rates, denied the application and based its denial largely upon the fact that this would increase the cost of steel to consumers in the territory affected. This decision is reported on page 1067 of the October 18, 1923, issue of *The Iron Age*. The dictum of the commission on this subject is as follows:

> "In the iron and steel industry the price of steel articles, outside of Pittsburgh, wherever manufactured, is the Pittsburgh price plus the freight rate from Pittsburgh to destination. Because of this so-called Pittsburgh basing point for steel practice, an increase in the freight rate from Pittsburgh increases in like manner the price of steel, no matter where the purchase is made. This, however, respondents state, is no fault of theirs, and they do not benefit therefrom."

This action of the Interstate Commerce Commission indicates clearly that the contention that the "Pittsburgh Plus" practice in steel is unique in industry is sound, else no particular reference would have been made to it. The Interstate Commerce Commission, in applications for changes in freight rates, deals with all phases of industry and its manner of reference to this case is pretty conclusive evidence that steel occupies a position unlike that of any other industry in its methods of price-fixing and price basing.

This also tends to support the contention that there is no general economic law applicable to industry such as is invoked by the steel mills in justification of "Pittsburgh Plus."

Primacy

It is the contention of the mills that the economic law by which they justify this practice automatically provides that when primacy in steel production passes from Pittsburgh to any other producing center, "Pittsburgh Plus" will automatically disappear. Judge Gary in his testimony said:

> "This Pittsburgh basing proposition is not the result of any combination, or any illegality, but grew up naturally, has been maintained naturally, and has largely disappeared naturally, because of competition. This law of supply and demand has brought it about * * * * * and you cannot control that."
>
> "Now, as to when that will happen (the end of 'Pittsburgh Plus') I do not know; but this law of supply and demand, which is influenced by competition, will regulate

it. Perhaps as to some things, never; but as to steel, I should say it will come in time. I think so. I think Chicago will be a base at some time. It is pretty nearly that now in practice. I think it will be a long time before Duluth will become a base like Pittsburgh."

Richard V. Lindabury, senior counsel for the United States Steel Corporation, in his argument before the Federal Trade Commission in 1920, made the following statement:

"When western production equals western consumption, assuming that it does not now so equal it, then Pittsburgh primacy will pass. * * * * I believe that point has been reached today, but I am not sure. * * * * In another five or ten years, if left to itself, 'Pittsburgh Plus' will automatically disappear."

As has been shown, there are other districts which already surpass Pittsburgh in the production of certain steel products. It is contended that under normal and untrammeled conditions, without steel supply being regulated by the mills in their own interests, Pittsburgh's primacy would even now have passed. The Birmingham situation is cited as showing that in its own trade territory Birmingham occupies a position of primacy, but nevertheless is not a basing point.

How can any other steel district, no matter how well equipped naturally for economical steel production, obtain primacy so long as the steel mills are enabled to conserve inviolate their Pittsburgh investments through the operation of "Pittsburgh Plus?"

If the point of primacy has already passed, or is at the passing stage, as intimated by both Judge Gary and Mr. Lindabury, why is "Pittsburgh Plus" still maintained and why do the steel mills still fight any attempt at its abolition?

The opponents of the practice maintain that Pittsburgh's primacy is only supported by the concerted action of the mills in regulating the output of the several steel districts. They point out that the hope held forth that "Pittsburgh Plus" will automatically disappear in five or ten years, as suggested by Mr. Lindabury, has been a sort of nebulous promise for a long time, but that no actual progress toward the abolition of the "Pittsburgh Plus" practice has been apparent.

A speech made by Col. Bope as far back as the early part of the year 1911 and reported in *The Iron Age* of February 2 of that year indicates that even then Pittsburgh's "primacy" was passing. Col. Bope, then sales manager of the Carnegie Steel Company, an important figure in the steel world and an important cog in the human mechanism of the United States Steel Corporation, made the following statement:

"Here in Pittsburgh we have the competition of every large plant outside of Chicago and that competition is becoming serious, because **the handwriting is on the wall for the plants located east of the Allegheny mountains. With Chicago made a basing point, it will be absolutely impossible for any plant east of the Allegheny mountains to place its product in the Chicago district or west,** and it is going to be difficult for Pittsburgh, handicapped as it will be, unless there is some concession on the freight rate of $3.60 per ton (the freight rate from Pittsburgh to Chicago at that time)."

This entire suggestion that Pittsburgh's primacy is responsible for the continuance of "Pittsburgh Plus" is ridiculed by the opponents of the practice, who pertinently point out that this is an argument which describes a vicious circle, the center of which is the self-interest of the mills. The mills say that "Pittsburgh Plus" is dependent upon "Pittsburgh primacy," and the facts show that this "primacy" itself rests entirely upon the "Pittsburgh Plus" practice.

The "Pittsburgh primacy" argument seems hardly entitled to much respect when its principal proponents are in doubt whether such primacy actually exists.

As far back as 1911, and even earlier, as Col. Bope's speech shows, the matter of Chicago's becoming a basing point was acute and was feared in Pittsburgh. Even then, and with a freight differential of only $3.60, Pittsburgh's primacy was insecure and apparently would have disappeared but for "Pittsburgh Plus." This indicates that Pittsburgh's "primacy" could hardly continue were it not for the artificial support which "Pittsburgh Plus" affords.

Slack and Flush Times

The steel mills contend that "Pittsburgh Plus" only operates in so-called "flush" times, when demand generally exceeds supply, and disappears in "slack" times, when supply exceeds demand.

This, they say, substantiates their law of "supply and demand" or "surplus production" theory, by showing that when demand elsewhere is acute, Pittsburgh must supply the shortage, while when demand is slack and Pittsburgh is not called upon to supply this shortage, "Pittsburgh Plus" goes by the board.

The facts do not seem to warrant this claim. The statement attributed to the late Andrew Carnegie that "steel is either prince or pauper" appears true. Steel is recognized as the most reliable trade barometer. During general prosperity the steel trade is usually "prince," while during industrial depression it is "pauper."

While "flush times" have considerably outweighed "slack times" since 1901, there have been several depressions, yet "Pittsburgh Plus" was constantly operative up to 1921 except for four brief periods, in one of which the deviation from the practice was solely in response to a dictum of the War Industries Board in 1917.

The other periods prior to 1921 during which there was a departure from the "Pittsburgh Plus" practice were in 1909, for a few weeks, in 1911 and in 1914, for a similar time.

Held During Depression

The 1909 period is interesting. Col. Bope's testimony regarding steel prices at this time is as follows:

"We had gotten to the point in 1907 that there was a money panic. It was not a business panic at all. They were trying to make one dollar do the work of ten dollars, and all of a sudden it snapped and the money situation got extremely bad. **The only way to save the situation was to maintain prices until liquidation could take place on the part of the buyers who had large stocks."**

"The first break in price was made by the Illinois Steel Company in May of 1908, through a misunderstanding,

and when that was done all our competitors thought they had the right to do the same thing, and there was a considerable cutting in prices. After the misunderstanding was cleared up they went back, for the purpose I have mentioned, to protect their own customers. * * * In February of 1909 was when the general break and demoralization occurred."

He further testified that there was no general cutting of prices at all during 1907 or 1908—except for the brief period in 1908 "due to a misunderstanding"—until the end of 1908, when other mills began to cut and the United States Steel Corporation formally withdrew its published prices in February, 1909, for a brief period.

This seems absolutely to demolish the claim of the mills that "Pittsburgh Plus" automatically disappears in "slack times." The real "slack times," according to Col. Bope's testimony, were in 1908, and yet the mills were able to keep up prices in order to protect customers who had large stocks on hand.

This is not normal economic law. The fact that these large stocks were on hand shows that supply was considerably in excess of demand, but the price was maintained and the "Pittsburgh Plus" charge was in full effect, despite the existence of a condition which, according to the mills, should have automatically brought about its disappearance.

If the United States Steel Corporation, and the other steel mills, could maintain prices throughout this admitted depression, and could also maintain the "Pittsburgh Plus" charge during that time, then it is plain enough that no economic law automatically causes the disappearance of this exaction if the steel mills will it otherwise.

Again in 1921 there was a depression, and "Pittsburgh Plus" was removed in the Chicago market on plates, shapes and bars after two attempts had been made to stabilize the market at lower price levels.

In 1922 there was a definite industrial boom. Mills all over the country were running to capacity, with a huge tonnage of unfilled orders. Nevertheless, in the Chicago district steel was not quoted "Pittsburgh Plus" on plates, shapes and bars, but for a considerable time quotations at Chicago and Pittsburgh were on a parity and later—in 1923—this was modified only to the extent that Chicago quotations ruled $2 per ton higher than Pittsburgh, despite the fact that the full "Pittsburgh Plus" charge was $6.80 per ton.

During all of 1922, however, and for at least two-thirds of 1923, the full "Pittsburgh Plus" charge was made at New York and in the east, but in the latter part of 1923 this price was shaded slightly, after the east had manifested a more active interest in the fight on "Pittsburgh Plus."

Marked attention is directed to this situation. If Pittsburgh is the point of "surplus production" and supplies the shortage of other districts in times of large demand, then during 1922 and the fore part of 1923, "Pittsburgh Plus" should have been the rule in the Chicago market, if Chicago is a point of underproduction.

Why were plates, shapes and bars sold in Chicago on a parity with or only slightly above the Pittsburgh price,

with "Pittsburgh Plus" disregarded, and "Pittsburgh Plus" maintained in the east, even in Philadelphia and Baltimore with the great Bethlehem, Lebanon and Sparrow's Point mills almost immediately contiguous to these cities?

If the reply to this inquiry should be that the Chicago district is able to supply its demand, why is Chicago not made a basing point on steel? If Chicago is unable to supply its demand during "flush times," why was not "Pittsburgh Plus" in full force in Chicago during these two years?

This situation seems absolutely at variance with the "law of supply and demand" and the "surplus production" justification. The real reason for the disappearance of "Pittsburgh Plus" in the Chicago market is asserted to be that western consumers of steel have made a determined fight against this practice and the mills, fearful of the effect upon the public mind of this campaign, did not dare restore the full "Pittsburgh Plus" charge at Chicago, the main source of western supply. This, if true, shows that the situation is well within the control of the mills and is not responsive to a natural economic law.

Fostering New Mills

A further defense for "Pittsburgh Plus" is on the score of the necessity for the "protection" it affords in the upbuilding of mills where the cost of production is so high that a differential, or subsidy, is necessary to enable them to operate profitably.

Judge Gary made this point in a speech delivered at Duluth June 12, 1918, in which he stated that but for "Pittsburgh Plus" the Duluth mill could not operate. He then asserted that the cost of producing steel at Duluth is 13 per cent higher than at Pittsburgh and 38 per cent higher than at Gary, which figures indicate that steel production costs at the lower end of Lake Michigan are the lowest in the country. These figures, when reduced to terms of percentage, show that Gary produces steel for approximately 18.12 per cent less than Pittsburgh.

This was a speech which has since often vexed the eminent head of the United States Steel Corporation, for his production cost figures have been widely quoted. In his testimony in the pending case he sought to mitigate them somewhat, although admitting that they were carefully prepared for him and were presumably correct when he cited them.

This speech has also vexed many of the heads of independent mills. At the time it was made, before the Duluth Commercial Club, Judge Gary was endeavoring to explain why Duluth could not be made a basing point. Several of the heads of United States Steel Corporation subsidiaries and also the heads of most of the important independent producers were with him at the time. Presumably they agreed with him.

There are several such points where steel is produced in which, so say the mills, production costs are so high that, but for this "protection" of "Pittsburgh Plus," there would be no steel industry.

Protection for New Mills

Judge Gary stated, in his testimony, that this "protection" is essential. He said:

"I said that a new plant could not be secured, or a site to begin with, at Duluth or anywhere else, at a new place, unless they had the protection, probably, of this Pittsburgh base."

And in another part of his testimony he said:

"Referring again to Duluth, the producers of semi-finished products in Duluth were desirous of having finishing mills erected there by us so that they could buy their goods there. We would not build there. We could not ever build there. We couldn't live with a business there except we had the benefit of this plus proposition.

"Now, the reason why the producer at Duluth can successfully compete with other manufacturers in the east, whose costs of production are less, is because this added freight rate protects him."

Production cost figures submitted to the Federal Trade Commission in the pending case show that Duluth costs are approximately 10 per cent higher than Pittsburgh. This hardly justifies the "Pittsburgh Plus" charge at Duluth, since the freight rate from Pittsburgh to Duluth is $12 per ton, or approximately 24 per cent of the cost of the steel at the mill there.

This clearly shows the injustice of the practice, as purchasers are penalized to an extent not at all comparable to the required "protection"—assuming such "protection" is essential.

Conserves Inefficient Mills

"Pittsburgh Plus" imposes a hardship upon all the rest of the country for the sake of conserving inefficient mills, and of yielding a larger profit from their operation than they are entitled to. Incidentally, of yielding an excessive profit from the operation of all other mills.

The mills contend that certain mills, admittedly less efficient than others, are necessary, that the nation may be assured an adequate supply of steel in time of need, and that therefore this subsidy or "protection" is justified.

In reply it is contended that the practice puts an admitted premium upon inefficiency and really halts the construction of new mills at points best adapted for steel production by enabling the inefficient mills to flourish and by conserving mill investments in and about Pittsburgh, no longer the point of most efficient or most economical steel supply.

The answer of the Jones & Laughlin Steel Corporation of Pittsburgh to the application for a complaint in the pending case asserts that if "Pittsburgh Plus" is abolished, this company, to conserve its western trade, will be obliged to erect a mill in the Chicago district. As a matter of fact, this company has, since making that statement, purchased approximately 1,200 acres of land near Hammond, Indiana.

Retards Mill Construction

The building of such a mill would add measurably to the capacity of the Chicago district, but unless "Pittsburgh Plus" is abolished, this mill will not be built. It is claimed that for the same reason other steel mill construction is

being halted by "Pittsburgh Plus," and that the steel consumers of the country are unable to derive the benefit of low-cost production in Chicago and other western and southern low-cost steel producing centers to which they are entitled, because of the malign influence of "Pittsburgh Plus" in preventing the construction of new mills.

There is little doubt that in the past "Pittsburgh Plus" aided in the construction of mills at places distant from Pittsburgh—then the unquestioned point of low-cost steel production. Pittsburgh was then close to the principal iron ore supply of the country—the Pennsylvania ore fields—and was close to the best and most available coal fields. Excessive transportation costs elsewhere prevented serious competition with Pittsburgh as a steel producer, and if mills were to be erected in other parts of the country, it is quite conceivable that some sort of "protection" was desirable.

But these conditions have radically changed, and because of the changes which have come about, there seems no further justification for the subsidy, except for the benefit of inefficient and high-cost mills.

Pennsylvania no longer supplies the iron ore for the Pittsburgh mills. Eighty-five per cent of the iron supply today comes from the ore fields of Minnesota and Michigan. This ore must be hauled to Pittsburgh by both lake and rail. It is hauled by water to the lower lake ports for much less. Besides, the Chicago district, and other steel producing districts, have abundant coal and limestone nearby, have ample water supply which is essential for steel production, and have excellent facilities for distribution.

No Longer "Infant Industry"

The testimony of Judge Gary, Col. Bope and other admitted authorities, including the experts who submitted production cost figures to the Federal Trade Commission in another case, shows that the steel "infant" has passed the suckling stage, and there is no longer the necessity of "protection" or a subsidy for the "infant steel industry" in points other than Pittsburgh.

Therefore, this subsidy seems no longer necessary to foster mill construction, but actually appears to hinder it, because additional mill construction at the present time would result, as is admitted, in increasing the country's steel supply beyond the point of normal demand and would tend to cause steel mill investments in the Pittsburgh district to deteriorate in value.

There would nevertheless be new steel mills constructed if "Pittsburgh Plus" were abolished, but these would be built at points of low-cost production, in order to serve such points most economically, and save the transportation charges which the Pittsburgh mills would be obliged to pay. As the nation's industry grows, under normal conditions, this expansion of steel mill construction would tend to keep pace with it, but the expansion would be at places best suited by natural advantages for low-cost steel production, instead of at Pittsburgh.

Pittsburgh's Day Past

In support of this contention, the testimony of Col. Bope is again cited as follows:

"If I were an investor I do not believe that I would want to put a dollar in a steel plant east of the Allegheny Mountains. I think it would be a bad investment to do so. I doubt very much whether I would want to put any money in a plant in Pittsburgh or Youngstown today. But when it comes to the lower lakes, I should think it would be a good investment today to put money in any steel plant there, because there are advantages that that section has over other sections of the country. There you have a water supply and you are nearer to your ore supply, if you are using Mesabi ore (Minnesota ore). You can make pig iron along that shore for $1.50 a ton cheaper than at interior points, perhaps.

"Now as competition is becoming keen—and I have heard it claimed that 25 per cent more steel is made in this country than the country can consume; I do not think that is strictly true, but assuming it is true—then you must figure that under the law of supply and demand competition must become keener, and therefore you must watch every advantage for location, cheaper manufacture, and you find that it costs less to manufacture along the lower lakes than at any other place in the country outside of Alabama; and that is because the raw materials are nearer to you there, the markets are gathering up better than ever before, all those are elements which any concern must take into consideration and study; there are changing conditions that are going to regulate things themselves to an extent."

Judge Gary, in his memorable Duluth speech, also stated the reasons for mill construction outside of Pittsburgh, whether "Pittsburgh Plus" is in vogue or not, when he said:

"Why did the steel corporation build a plant on a sandy desert along the southern shores of Lake Michigan? Because of a love for Indiana? Oh, no; none of us have any particular interest in that state. It was purely a business proposition. We would much rather have spent the money expended in Gary right here in Duluth. Our friends are here. But the proposition would have been a failure from a business point of view. There fuel was easily obtainable, as were other things which are necessary to the making of steel. There was a market. For the manufacture of pig iron, Duluth is well situated, perhaps nearly as well as almost any other city. But Birmingham can manufacture pig iron $3.05 more cheaply per ton than can Duluth. As to steel products, Duluth is behind Gary by 38 per cent, Pittsburgh by 13 per cent."

Building Activity in Chicago

Further support of the contention that new steel mill construction is following the lines indicated in Col. Bope's testimony, is afforded by recent and projected building activities in the Chicago district and elsewhere in the west.

The United States Steel Corporation's subsidiary, the National Tube Company, is constructing a great tube mill at Gary, Indiana, at an announced cost of $35,000,000; the Youngstown Sheet and Tube Company, following its absorption of the Steel and Tube Company of America, is now enlarging its Indiana Harbor, Indiana, mill at a cost of $4,500,000, and has announced that its future construction expenditures would be confined practically to the west; the Inland Steel Company, at a cost of $7,500,000, is

increasing the producing and finishing capacity of its plant at Indiana Harbor, also in the Chicago district.

These construction activities in the Chicago district, together with the projected $40,000,000 Jones and Laughlin mill and other projected plants, mean an estimated expenditure in that district alone of well over a hundred millions of dollars for new mill construction. This, despite the fact that Judge Gary about three years ago announced that no new mills would be built in the west if "Pittsburgh Plus" were abolished.

Admittedly this new construction in the Chicago district is not because of "Pittsburgh Plus." As noted, the Jones and Laughlin Corporation will not build there unless "Pittsburgh Plus" is abolished. It is therefore plain that the steel mills are seeing the handwriting on the wall, and are fortifying themselves against the day, believed to be not far distant, when "Pittsburgh Plus" will no longer be operative.

Were it certain that this practice would continue indefinitely there would be no incentive to additional construction in the west, as the nation does not at present require a greater steel supply. The mills could, therefore, actually save money by supplying their western customers from their eastern mills, since new construction means depreciation in the older mills, a great expense for the use of capital, and other similar charges to the mills which would offset the gain in economy of production.

St. Louis Would Benefit

In addition to the building up of the Chicago district which the abolition of "Pittsburgh Plus" will bring about, there are other sections of the west well adapted to economical steel production which would benefit, notably St. Louis.

Newly developed ore deposits in the Ozark mountains are available for steel production in the St. Louis area. There is an abundance of coal, limestone and water, and it is the hub of an excellent and constantly growing trade territory.

But there is no present incentive for additional mill construction there, with "Pittsburgh Plus" operative, and the great natural advantages which St. Louis possesses will never be utilized thoroughly until this practice is abolished.

What is true of St. Louis is equally true of every place in the country which has natural advantages for the economical production and distribution of steel. Therefore, far from "Pittsburgh Plus" fostering mill construction throughout the country, it is apparently retarding it, in the interest of small and inefficient mills located at unfavorable production points, or mills located in Pittsburgh whose business might be curtailed by the abolition of "Pittsburgh Plus."

These inefficient mills have no place in the modern scheme of industry and deserve no especial consideration. They must either become efficient and up-to-date, or must follow the usual law of industry and give way to more enterprising and energetic competitors. They are not essential, because their place will be taken by other and more capable pro-

ducers, situated at places better adapted to economical and efficient production and distribution.

Cost of Production and Long Run Theory

Although Judge Gary, in his famous Duluth speech, insisted upon the necessity of the "protective" feature of "Pittsburgh Plus" to justify steel mill construction and operation at Duluth, his attorneys in the pending case have discarded production cost as a factor in steel price-making. They contend that the only factor which can be taken into account is that of "supply and demand," or "surplus production."

The theory of the mills is asserted to be fallacious and not expressive of the real economic law which is involved in steel price-making, or the price-making of any other commodity. The fundamental element in price-making, able economists say, is production cost, since this, in the long run, regulates supply in relation to demand.

The real economic law, they insist, must rest upon economy of production because, in the long run, it is the rule of industry that, untrammeled by artificial manipulation or control, the low-cost producer tends to drive his higher-cost competitor out of his market.

Thus, they show, when demand exceeds supply, both low-cost and high-cost producers may flourish, because prices will be high, their level being set by the highest cost producer whose product is essential to meet the demand of the moment. However, during such periods of active demand, production is always speeded up to meet it, the result being that a point is reached at which supply meets and then exceeds demand. At that point the highest cost producer can no longer compete to advantage. As supply continues to exceed demand other relatively high-cost producers are no longer able to compete.

A point is eventually reached where the selling price depends not upon the cost of the highest cost producer, but upon that of the lowest cost producer. Between the two extremes of abnormal demand and abnormal supply, there is a point which permits all producers whose costs reasonably approximate those of the most economical producer to live and profit, and that constitutes the normal trade condition. Normal prices, therefore, are really dependent upon the costs of the lowest-cost, rather than of the highest-cost producers.

This law, according to most economists, obtains in all industries, and the steel industry is not an exception to the general rule. Therefore, they say, "Pittsburgh Plus" manifestly does not exist because of economic law, but in defiance of it, and only because of close control of the steel industry.

Based upon the real economic law governing steel price-making, therefore, the actual determining factor, in an untrammeled and free market, is not the relative supply of the moment, but the possibility of supply over a long period by the lowest-cost point of production.

This being the case, the real inquiry in this controversy, so far as economic law is concerned, should be directed to the ascertaining of the lowest-cost producing point.

Points of Low-Cost Production

This point of lowest-cost production, as well as the relative production costs of various steel producing localities, is in controversy. Judge Gary's Duluth speech was taken as settling the question, so far as relative costs at Pittsburgh, Chicago, Birmingham and Duluth are concerned, but in his testimony in the pending suit, he intimated that Pittsburgh is really as low-cost a producer as any of the other districts.

However, he also admitted that the figures he had given at Duluth in 1918 were accurate and had been carefully prepared for him, his testimony on this being as follows:

> Q. Do you recall that you gave these figures, that at Duluth the cost of producing steel was 38 per cent higher than at Gary, and 13 per cent higher than at Pittsburgh, and, I believe, 12 per cent higher than at Birmingham?
>
> A. I do not remember the figures. If I gave them they were probably accurate, because in a public address like that, where that question was involved, I would not give figures that I had not verified.

Manufacturers of commodities made from steel who are located in Duluth dispute the accuracy of Judge Gary's figures, so far as they apply to present conditions. They assert that present costs are comparable to Pittsburgh's. Duluth is closer to iron ore than any other northern steel producing point, and therefore obtains its ore cheaper. In 1918 the Duluth mill had only been in operation about two years. Since then the variety of its production has increased and manufacturing conditions have improved.

The Duluth people also assert that their other costs are not sufficiently greater than those of Pittsburgh to warrant the claim of the steel mills that Duluth costs are notably higher. During a considerable portion of the year, when lake navigation is open, they can obtain their coal, coke and other steel-making essentials at a reasonable cost, and their labor situation is favorable. Judge Gary admitted in his speech that Duluth is favorably situated for the manufacture of pig iron, and the Duluth people say that this also applies to steel.

A Curious Condition

They point out that the Duluth mill ships in excess of 100,000 tons of semi-finished steel to the Milwaukee mill of the Illinois Steel Company, a United States Steel Corporation subsidiary, for re-rolling.

Steel bars rolled at Milwaukee are sold there at the Pittsburgh price, plus $7.50 per ton, the freight rate from Pittsburgh to Milwaukee. But it costs $6.10 per ton to ship the semi-finished steel from Duluth to Milwaukee. The difference between the "plus" charged and the actual freight paid is $1.40 per ton.

The Milwaukee mill was built more than thirty years ago. Almost certainly it cannot operate at as low a cost as the nearly new and modern Duluth mill. It would seem, therefore, if the Milwaukee mill can profitably re-roll semi-finished steel produced by the Duluth mill, and sell it with a "protection" of only $1.40 per ton of "plus," that steel bars rolled at Duluth from the same character of semi-finished steel as is shipped to Milwaukee could be sold profitably at

Duluth at an advance of $1.40 per ton over the Pittsburgh price, instead of $12 over Pittsburgh, the price now charged.

Figures submitted by the United States Steel Corporation to the Federal Trade Commission and in evidence in the pending case, apparently verify the figures Judge Gary cited in his Duluth speech. They were based upon 1920 mill costs of the Carnegie Steel Company, of Pittsburgh; the Illinois Steel Company, of Gary and South Chicago; the Minnesota Steel Company, of Duluth, and the American Sheet & Tin Plate Company, all subsidiaries of the United States Steel Corporation.

These figures show that Chicago's cost of production of steel bars was then $4.10 per ton lower than Pittsburgh, or about 10 per cent, and that Birmingham's cost was also slightly lower than Pittsburgh, while Duluth's was about 10 per cent higher.

Chicago's production cost on steel shapes was $8.40 per ton, or about 22 per cent lower than Pittsburgh, while Birmingham's cost was about the same as Pittsburgh's.

Chicago's production cost on steel plates was also slightly lower than Pittsburgh's, the exact amount being 60 cents per ton, or about 1½ per cent, while here Birmingham's cost is considerably higher, being $7.50 per ton, or about 18 per cent more than Pittsburgh.

On black sheets Chicago was also a lower cost producer than Pittsburgh by $7.20 per ton, or about 10 per cent.

This complete table of costs for the four producing plants, as submitted in the pending case, is as follows:

Production Costs and Profits Compared

These figures are based on 1920 mill costs of the Carnegie Steel Company, the Illinois Steel Company, the Minnesota Steel Company and the American Sheet & Tin Plate Company, submitted by the U. S. Steel Corporation to the Federal Trade Commission September 15, 1921:

	Price Net ton F.O.B. Pittsburgh	Freight Net ton from Pittsburgh	Delivered price per Net ton	Cost of Production Net ton	Profit Net ton at Mill
BARS					
Pittsburgh	$47.00	$ .00	$47.00	$44.90	$ 2.10
Chicago	47.00	7.60	54.60	40.80	13.80
Birmingham ..	47.00	5.00*	52.00	44.00	8.00
Duluth	47.00	13.20	60.20	50.40	9.80
SHAPES					
Pittsburgh	49.00	.00	49.00	46.60	2.40
Chicago	49.00	7.60	56.00	38.20	18.40
Birmingham ..	49.00	5.00*	54.00	46.50	7.50
PLATES					
Pittsburgh	53.00	.00	53.00	43.40	9.60
Chicago	53.00	7.60	60.60	42.80	17.80
Birmingham ..	49.00	5.00*	54.00	46.50	7.50
BLACK SHEETS					
Pittsburgh	87.00	.00	87.00	76.70	10.30
Chicago	87.00	7.60	94.60	69.50	25.10

*The delivered price at Birmingham is obtained by adding an arbitrary differential of $5.00 per ton to the f.o.b. Pittsburgh price. Were the actual freight of $15.30 per ton added to the f.o.b. Pittsburgh price as is done at Chicago, Birmingham profits as shown would be increased $8.30 per ton.

As will be noted from the above table, the mills of the United States Steel Corporation in the Chicago district make

a vastly greater profit than do those in the Pittsburgh district. In fact, the Pittsburgh mills make a smaller profit on their steel than those of any other district.

With "Pittsburgh Plus" in full effect—at the time the above table was prepared it amounted to about 10 per cent more than at present, for which allowance must be made, as there was a 10 per cent freight rate reduction in 1922—the corporation's mills outside of the Pittsburgh district made a profit out of all proportion to that of the Pittsburgh mills.

Why should consumers all over the country pay this excessive profit?

This method of subsidizing new steel mills and steel mills in locations where costs are higher, is apparently not justified, since it gouges consumers to a degree far in excess of the protective requirements of such mills, assuming that such protection is requisite.

The Duluth people also assert that the table here cited shows that even the Duluth district by no means requires the excessive "protection" afforded by "Pittsburgh Plus."

With "Pittsburgh Plus" abolished, Duluth's supporters say, prices might be higher at Duluth than at Chicago or Pittsburgh, if the claim of higher cost of production is warranted, but they would not be as excessive as shown in the above table.

Other authorities are agreed that Pittsburgh is no longer the point of lowest-cost production, or even a point of relatively low-cost production. Col. Bope showed that the lower lakes region and Alabama both have superior facilities for steel production. The advantages of St. Louis have been cited. It is admitted that Buffalo, where the great Lackawanna mills of the Bethlehem-Lackawanna consolidation, are located, is a low-cost producer, while it is claimed that production costs both at Bethlehem and Sparrow's Point are relatively low. In the two latter cases, these mills could survive, even though their production costs were somewhat higher than western or Pittsburgh mills, as they are far nearer the great eastern and Atlantic seaboard markets, and would enjoy the natural protection afforded them by their contiguity to these markets and the high freight cost to competitors to enter them.

In no case, with "Pittsburgh Plus" in effect, does any locality reap the benefit of nearby low-cost mills, and this applies to the east equally with the west and south.

Stabilization

One of the principal arguments in addition to that of economic law which the mills invoke in support of the "Pittsburgh Plus" practice, is that it "stabilizes" the steel industry.

Much stress is laid upon this. Were it not for "Pittsburgh Plus," the mills assert, the steel market would be in a state of constant upheaval; neither producers nor consumers would know how to quote, and that the prevailing device enables them to figure exactly what their costs will be. In short, that "Pittsburgh Plus" is really merely a "basis upon which to figure."

This point is made strongly by Judge Gary in this testimony:

"I regard 'Pittsburgh Plus' primarily as being only a quotation base, a base to figure on for both the consumer and the producer."

He further testified:

Q. Do you mean that there would be less fluctuating prices on the Pittsburgh base than there would be on the mill base?

A. I think they are less fluctuating. They are unstable enough as it is. But if there is a base, if there is a starting point, and the general trade knows that there is something to go by, it is easier to secure contracts in the first place, in behalf of the consumer or in behalf of the seller. Everyone interested in the commodity in any state of its manufacture is better accommodated. Stability and continuity of business is of the highest importance.

And further he stated:

"If he (the fabricator) has an existing Pittsburgh base, he has a starting point. Now he knows what that means, if there is no waiving, no cutting in the application of that, that the market in Chicago is as much higher than the Pittsburgh price as the amount of the freight that has to be paid from day to day. Of course, he has to keep advised in regard to that. Always when prices are changing, going up and down, it requires a constant diligence to find out what the situation is."

This comprises the essence of the mills' "stabilization" argument. They admit, however, that in times of slack demand "Pittsburgh Plus" is not strictly observed.

Needed Nowhere Else

It seems rather a curious commentary upon this argument that steel, if not the only industry requiring such "stabilization," is at least one of the very few in which a device of this character is employed.

Other industries manage to flourish very comfortably without the aid of such a device. This would seem presumptive evidence that "Pittsburgh Plus" is not required to avoid chaos in the steel trade.

However, there is other evidence. The opponents of "Pittsburgh Plus" assert that the mills have utterly failed to make out a case on the score of "stabilization" by the mere process of adding freight rates. Judge Gary's testimony is pointed to as showing that this so-called "stabilization" is merely adding a fixed charge—the freight rate from Pittsburgh—to a fluctuating price.

Why should this fixed charge be based upon Pittsburgh, if Pittsburgh is not the lowest cost producer? Why should there be any fixed charge whatever? Why should not each market determine its own charges, as is done in other industries without chaos?

All these are pertinent inquiries which the upholders of "Pittsburgh Plus" fail to satisfy in their replies. Even so astute a person as Judge Gary evaded this in his testimony, which follows:

Q. Then, instead of relying on the Pittsburgh base as a starting point, is it not feasible for him (the fabricator) to rely on the Chicago base as a starting point and keep track of it in that way?

A. It is the difference between having something to go by and having nothing to go by.

Q. Why would he have nothing to go by in the case of Chicago quotations?

A. I mean as a starting point he has nothing to go by if the Pittsburgh base is eliminated.

Q. Could not the Chicago manufacturer have his starting point Chicago, and the Pittsburgh manufacturer have his starting point Pittsburgh, and go by those prices?

A. Yes, they could. They could have prices at every location where the article is consumed. Why do they not have them? Why is not business conducted in that way? Why has it not been in all different lines of business? What is the reason for having some location established as a market price or place to figure from, except for the convenience of business and the accommodation of everyone interested?

Gary Makes Admission

It will be observed that Judge Gary admits Chicago or some other point or several other points could be used as bases from which to figure prices. He merely asserts that the purchasers of steel would have "nothing to go by," if "Pittsburgh Plus" were eliminated, without offering an adequate reason for the establishing of Pittsburgh as a basing point and without showing how steel differs from numerous other commodities in this respect.

Much more illuminating is the testimony of Col. Bope. In tracing the history of price-fixing in the steel trade, he showed that numerous devices had been utilized successively and discarded, owing to changing conditions. With Pittsburgh the actual source of supply for nearly all the steel made in the country, the Pittsburgh base was not only fair enough but probably the most convenient method of figuring; but this condition has changed radically. Col. Bope indicated this when he testified:

"In all business a great deal is done on precedent, and after many years of the establishment of this system ('Pittsburgh Plus') in organizations and associations they just continued it and it was found to be a stabilizing influence and one that was satisfactory to both buyer and seller and it was just continued."

He further testified:

Q. In order to be a good stabilizer, what factors have to occur?

A. There has to be a general equality and a basic system where you have a price that remains stable. When it is changed, it is changed to conform to new conditions which may have arisen and which the trade demands.

Q. In order that this basing system be successful as a stabilizer, must the prices between the different manufacturers be uniform?

A. It takes uniform prices to be stable. Fluctuating prices are not stable.

Q. So that if the prices of the manufacturers (producers) were not stable, there would not be stabilization as you use that term?

A. No, I should say not.

Real Basis of Stability

This shows that the real basis of stability is the fundamental price, not the addition of any fixed charge, and it would seem that such "stabilization" could be easily obtained without "Pittsburgh Plus," and in fact, that the "Pittsburgh Plus" device can hardly be regarded as a stabilizing factor at all.

As to whether this so-called "stabilizing device" really "stabilizes," the facts seem to be against the contention. The mills admit that "Pittsburgh Plus" goes by the board in times of slack business, when demand is light. That would seem to the uninitiated to be the time when "stabilizition" is most desirable. Yet, that is the very time when no "stabilization" is effected. At times when the steel market is firm, and naturally stable, "Pittsburgh Plus" merely adds a fixed sum to the prevailing high prices and brings about a generally higher level of commodity prices, which then is something always sought to be avoided.

It is also pertinent to inquire how an arbitrary differential of $5 per ton at Birmingham can effect the "stabilization" which the steel mills so highly vaunt. Prices may be figured just as easily without an arbitrary added charge of $5 per ton as with it. There is no "chaos" or "demoralization" normally in the Birmingham market, despite the fact that the full "Pittsburgh Plus" charge is not paid.

The situation at Birmingham, therefore, self-created by the mills, would seem incontestably to indicate that no "stabilization" such as "Pittsburgh Plus" is said to afford is required in any steel market.

Conceals a Profit

In the face of the experience of other industries; in view of the fact that "Pittsburgh Plus" really conceals an added profit to the mills not justified on the score of production costs, and in the light of its evil effect upon the ultimate consumer, the "stabilization" argument seems hardly tenable.

It seems a lame argument to assert that Pittsburgh must be the point of price-basing for making stable quotations, in the face of the fact that it is not so well situated as a point of distribution or of economical production as other steel producing centers, and of the fact that in other commodities, such as pig iron and rails, there appears no necessity for such "stabilization."

Under normal conditions, each market in any commodity determines its own prices. This does not result in trade demoralization or chaos. On the contrary, industry usually does very well under such a system.

Pools, "gentlemen's agreements," and other price-fixing devices contrary to law and public policy but profitable to the mills, were all resorted to under the specious plea that they were essential to "stabilization." Their abolition has resulted in no demoralization of trade and it seems at least reasonable to presume that the abolition of "Pittsburgh Plus" will result in no such demoralization.

During 1922 and the first half of 1923 when "Pittsburgh Plus" was arbitrarily abolished in the Chicago market on plates, shapes and bars, there was no demoralization or chaos in the steel trade, but conditions were stable because demand was great.

During 1908 and 1919, with the market generally demoralized but with "Pittsburgh Plus" in full force and effect, no marked stabilization was effected. What argument can there be for "stabilization," if it fails to "stabilize" when "stabilization" is essential and only "stabilizes" when market conditions themselves insure stabilization?

Profits

The real "stabilization" which "Pittsburgh Plus" effects is not of trade conditions. These would undoubtedly be "stabilized" without it. Then, what kind of "stabilization" is effected?

That question is easy to answer. It is the "stabilization" of steel mill profits upon a high level. There is no doubt that the mills derive an additional, and unearned, profit from "Pittsburgh Plus." It may be that this profit is, in some cases, justified, but in that event why should it be disguised?

Why should it not be frankly added to the price of steel, as justified profit is frankly added to the price of other commodities?

That "Pittsburgh Plus" causes higher prices for steel is unquestioned. It is admitted by Judge Gary. He testified as follows:

> Q. Do you think it is good for the communities when, under this basing system, on the steel that the farmers buy from one implement concern alone in the Chicago territory, those farmers are obliged to pay over $1,000,000 per year "Pittsburgh Plus"?
>
> A. "Pittsburgh Plus," when it is in force, of course makes steel cost more.

From the foregoing the query naturally suggests itself, "Is the price increase warranted?"

If it is, then why not charge it in the price, candidly?

If it is not, then what is "Pittsburgh Plus" but a device for obtaining more money for the product of the mills than they are entitled to?

And if "Pittsburgh Plus," when it is in force, makes steel cost more, how can it be regarded solely as a "stabilizing" factor, other than as a factor which only "stabilizes" greater mill profits?

Or does "stabilization" merely consist of higher commodity prices and the affording of greater profits to producers than they are entitled to?

Surely the steel mills can hardly claim that.

Huge Sum Annually

Yet conservative estimates of the annual profit which accrues to the steel mills because of "Pittsburgh Plus"—the United States Steel Corporation and the "independents" alike—range from $75,000,000 to $100,000,000 each year. That is a considerable "stabilization" to the steel mills.

But it must be remembered that the public pays for this "stabilization," and by the time the public has paid this charge, with fabricators' and middlemen's profits added to it, the amount that is mulcted from the public's pockets is at least double that which goes into the pockets of the mills.

That means that the public pays from $100,000,000 to $150,000,000 each year to "stabilize" the steel industry—so that the mills may derive an extra and unearned profit.

Judge Gary has recently spoken quite eloquently upon the necessity for candor and publicity in "big business" affairs. Candor and public knowledge are admittedly desir-

able. A welcome application of the theories which Judge Gary has been industriously expounding would be the frank and candid addition of a charge in the pricing of steel by which the mills would make the profit that "Pittsburgh Plus" nets them, without any subterfuge which substitutes specious terms for candor and procures this profit by means of an unearned freight charge under such masquerades as "economic law" and "stabilization."

Candor Desirable

A further illustration of the desirability of candor is afforded by conditions in 1920 and 1921, when the steel trade saw the keenest competition in years.

The demand for steel slackened during the autumn of 1920, and by the early part of 1921 independent mills in the east and in the Chicago district, running only to about 30 to 40 per cent of their capacity, frantically sought business. There was price-cutting in all directions, but not by the United States Steel Corporation. This corporation had shown more fairness in its prior dealings than the independents. During "boom" times it had refrained from excessive premium charges for prompt delivery which most of the independents had made. As a result of the good will thus acquired, it had booked a large "back log" of unfilled orders which kept its mills fairly busy, while its competitors were desperately seeking tonnage.

"Pittsburgh Plus" remained in full effect until about January, 1921, when the independent mills began cutting prices. About April 1 an attempt was made to stabilize the market on a lower price level. The independent mills advanced their prices and at the same time the U. S. Steel Corporation announced a "reduction." This was a reduction of the corporation's prices, but the new price level announced by the corporation was the same as that to which the independents had raised their own quotations. The new prices were considerably higher than those which the independents had quoted prior to that time. All the mills observed the new price scale, at least temporarily.

The independents observed the April scale for a time, but after a couple of months price cutting began again. In July, 1921, this process was repeated. Again, the United States Steel Corporation announced a "reduction." Again the independents brought their prices up to the new level. And again the "reduction" really meant an increased price of steel, although once more the corporation reaped glory for "reducing prices."

It was at this time that "Pittsburgh Plus" was entirely abandoned in the Chicago market, and Chicago was made a basing point for plates, shapes and bars, but no concession was made on wire, sheets or other steel products.

True, in these two instances, the United States Steel Corporation had "reduced" its own prices, but it had not effected reductions in the prices current in the steel market, and it knew it. Yet it claimed and obtained credit for that very thing. That was hardly candor, of the character so earnestly and engagingly recommended by Judge Gary.

Nor is it candor to substitute such pleas as "economic law" and "stabilization" for the actual fact regarding "Pittsburgh Plus," which is, as Judge Gary indirectly admitted in his testimony which has been quoted, that "Pittsburgh Plus, when it is in force, of course makes steel cost more."

If it makes steel cost more, it is plain enough that it brings greater profits to the steel mills. Candor would seem to require the plain statement that the mills are entitled to more money for their product, but for some curious and unexplained reason, they seem loath to make this statement.

Long Time Usage

The steel mills assert that objectors to the "Pittsburgh Plus" practice should not be heard to complain for two additional reasons. One is that all western and southern industry in steel has been built up under the practice, and the other that industry in all parts of the country, when it was established, knew of the existence of the practice and located where it did in the light of this knowledge. That is, it is claimed by the mills that western manufacturers, in locating their plants, knew that "Pittsburgh Plus" was common practice in the steel trade, and yet saw sufficient other advantages to justify them in going into business.

The mills also claim, in this connection, that the "Pittsburgh Plus" practice is established by "long-time usage," and its disestablishment would play havoc with the industry.

The mills assert that there is a great and growing steel fabricating industry in the west and south, and that this has been built up during the time that "Pittsburgh Plus" was in effect. Therefore, they say, this is evidence that this practice has been beneficial to the fabricators and to the steel industry generally, as well as to the mills—in brief, that it shows that "Pittsburgh Plus" has "stabilized" the industry.

Claim Industry Benefits

The United States Steel Corporation contends that the many prospering industries located elsewhere than in and about Pittsburgh prove that "Pittsburgh Plus" has not acted as a deterrent to industry generally. Judge Gary made this point specifically in his testimony, thus:

> Q. Is there not some advantage in being able to get his steel at the Chicago mills? Isn't that the only advantage he (the Chicago fabricator) would have?
>
> A. Well, he is close to his market. His market is there, and he gets a profit—perhaps, may, often does—on the same basis as the Pittsburgh basing price. He knows whether it is beneficial for him to do business in that way. It seems to me the whole question is answered by saying that the Chicago people are pretty prosperous, so far as I understand. I think they make a good deal larger profits on their investments than we make on our steel, with all the privileges we have.

That fairly represents the attitude of the mills. Judge Gary, in further testimony, supported his position by the following statement:

> "You would not have seen any big business built up in Chicago except for that basing rate. You would not have seen any plant at Duluth and various other places. **Of course, after they are all established and can arrive at**

a point, if ever, where the cost of producing is not any more than it is in Pittsburgh, then the basing point would naturally fade away. This law of supply and demand will eventually take care of this whole question, in my judgment."

And the answer of the United States Steel Corporation to the original application for a complaint in the pending case, also stresses this point, thus:

> "The practice above described ('Pittsburgh Plus') long since became and still remains a settled custom in the (steel) trade. The business of producers and consumers have been arranged, manufacturing and fabricating plants have been located, and vast investments of capital have been made in reliance upon it. To change such practice by order of the commission or in any other way than by the orderly processes of trade would create great confusion in the industry and cause incalculable loss to a large number of concerns engaged in the business, and, respondents submit, should not be attempted."

Denial by West and South

In reply, it is specifically denied that western and southern industry has been built up under the "Pittsburgh Plus" practice, as it now exists.

The Duluth situation referred to by Judge Gary is interesting. It is in evidence on the testimony of Otto Swanstrom, a Duluth manufacturer, and others, that because of the excessive cost of steel in the territory normally tributary to the Duluth mill, there is little manufacture there of commodities made from steel. Therefore, the output of the Duluth mill is not consumed in its own normal territory, but is only partly finished, and is shipped in semi-finished form to Milwaukee, Chicago and eastern points, because of the lack of Duluth demand for finished steel products.

Thus the "plus" at Duluth is lost to the mill, as it is absorbed by the payment of actual freight on the southward and eastward shipment of the mill's product. In this case "Pittsburgh Plus" largely defeats its own purpose, for the lack of absorptive power, due to the high price of steel at Duluth, caused by the "Pittsburgh Plus" charge of $12 per ton, compels the Duluth mill to forego most of this charge, and at the same time discourages industry which would otherwise use its steel.

As there is no dispute that the Duluth mill ships by far the most of its product out of its normal territory, and to the south and east, Judge Gary's reliance upon "Pittsburgh Plus" as a builder of steel mills and of the steel industry is evidently misplaced in the case of Duluth, which he specifically cites.

Obviously, the United States Steel Corporation could, if it would, sell its steel at Duluth at the same net price it actually obtains for it by selling it elsewhere. It would thus foster industry at Duluth and create a Duluth market for its product. But this would injure Pittsburgh.

Must Locate at Pittsburgh

It is pointed out that much western and southern business —especially western business, as the south presents a somewhat different problem—was established before "Pittsburgh Plus" became settled practice.

That their condition is serious was testified to by numerous western fabricators, many of whom said that if "Pittsburgh Plus" were to remain they faced the choice of two courses, either to go out of business entirely, or to move their plants to the Pittsburgh district.

Judge Gary conceded that the "Pittsburgh Plus" practice restricts western manufacturers and fabricators to their own immediate neighborhood while permitting their Pittsburgh competitors the entire country as a trade territory. He admitted that western manufacturers and fabricators could not compete to the eastward of their plants, while their Pittsburgh trade rivals could compete on equal or better than equal terms anywhere.

His testimony is interesting—and also somewhat cynical. The remedy he suggests to western fabricators is that if they are not satisfied with conditions in their present localities, they may either remove their entire plants to Pittsburgh or erect additional plants there—the very thing the harassed western manufacturers say they will have to do if "Pittsburgh Plus" is maintained. He said:

> "Now, if he (the western fabricator) thinks there is an advantage to the Pittsburgh man, there is nothing to prevent him from establishing a plant of his own near Pittsburgh or in Pittsburgh and buying the Pittsburgh steel. There is no reason why he cannot fully protect himself. It just depends upon whether the business will justify that. I think some of the erectors have done that very thing."

The admission by Judge Gary that "some of the erectors have done that very thing," shows what effect the practice has had upon industry in the west, despite the fact that mills in the Chicago district are lower cost producers than those of Pittsburgh.

Risk in Manufacturing

Judge Gary further admitted that control of selling prices will drive many manufacturers out of business, his testimony being as follows:

> "The manufacturer runs a great deal of risk—a great deal of risk—and you have got to give him a fair return, otherwise he will go out of business. Not only that, you have got to give him what he considers a fair return, or he will go out of business. You undertake to control the selling prices of manufactured articles, and the first thing you know you will drive a lot of them out of business, and all that works against the consumer, the great public that you are trying to protect."

It is true that the above statement referred to the manufacturers of basic steel, but if true with them, it certainly has equal force when applied to the manufacturers of commodities made from steel. As the opponents of "Pittsburgh Plus" insist that this device in fact controls the selling price of such commodities, and also fails to give a "fair return" to manufacturers in the west and south, they cite Judge Gary's words against himself and aver that the effect he predicts will follow—and has already followed—the working of "Pittsburgh Plus."

Additional force is given this contention by other portions of Judge Gary's testimony. Among other things, he said:

> "I said that the erector buying his fabricating material in Chicago or in Pittsburgh would like to be in a position to compete with the producer of fabricated material in Pitts-

burgh. There is nothing to prevent his building an erecting shop—whatever they call it—an assembly shop, in Pittsburgh, and thus be on a par with Pittsburgh—buy steel there. Of course, all markets should be free to everybody. I believe in open competition and a free field for everyone in every department of human activity."

Centralizes Industry

Further testimony by Judge Gary along the same line is also enlightening. It contains similar admissions that "Pittsburgh Plus" operates to center the steel industry in Pittsburgh:

Q. Now, I believe you said that the Pittsburgh base was a good thing for the consumer as well as the producer—the Pittsburgh basing system.

A. I think so.

Q. Do you think it is a good thing for a consumer in Chicago, a consumer who uses heavy steel material, such as a structural builder, who cannot take advantage of the natural growth in his territory, but must divide that with the Pittsburgh and eastern fabricators?

A. Well, I don't see how he could be prevented under any circumstances from dividing any territory with anyone who was competing to such an extent as to get the business.

Q. All right. Then add to that fact that he is not able to go into the Pittsburgh district and divide the natural business growth of that territory with Pittsburgh.

A. Yes, he is at perfect liberty to do so.

Q. Yes, but here is a case where the cost of the steel, at the time we took testimony in Chicago, was $7.60 more than the Pittsburgh fabricator paid. How can the structural man compete on that basis with the Pittsburgh fabricator in Pittsburgh?

A. **Well, now, in such a case as that, I should think the Chicago man would establish a plant in Pittsburgh and buy his steel there, instead of buying at Chicago, if he wanted that territory.**

Q. Under that condition which you have just stated, **if everybody wanted to market all over the United States, they would have to locate at Pittsburgh in order to compete with everybody else. In other words, if a Chicago manufacturer living at Chicago all his life wanted to go into the structural business and wanted to compete all over the United States, he couldn't settle down in Chicago under this system, could he? He would have to go to Pittsburgh.**

A. The market tributary to Chicago is so large he wouldn't abandon that place, if he is established there probably, **but very likely he would build another plant at Pittsburgh.**

Q. **It would necessitate his building another plant then?**

A. **It would necessitate that.**

Western Claim Admitted

This testimony absolutely admits that western manufacturers are restricted to the territory immediately adjacent to them, and even here must meet Pittsburgh competition on even terms. This point is emphasized by further testimony of Judge Gary as follows:

Q. Well, now, do you think it fair to the consumer where, as a witness testified in Chicago, he wanted to compete on a job in Detroit against a Detroit manufacturer, both buying their steel from the Chicago mills, the Chicago man taking delivery at the mill? In that case, the Detroit man was able to get his steel some seven dollars or more cheaper than the Chicago manufacturer.

A. Where did he buy it?

Q. He bought it at the Chicago mills.

A. And at the same time?

Q. At the same time. In other words, the Chicago mill, of course, was selling on the Pittsburgh base price plus the freight, so that the Detroit manufacturer got his steel for something over seven dollars cheaper than the Chicago manufacturer and both got it at the same place. Now, in that case, of course, as the testimony shows, the Chicago manufacturer could not compete on that job in Detroit, and yet the Detroit man could go into Chicago and compete, so far as the cost of steel is concerned, on any job in Chicago.

A. If I understand that question, you ask me if I think it would be fair for the Chicago producer (the steel mills) to discriminate against one customer in favor of another at the same time. **I don't know anything about the facts, but assuming that they did so, did discriminate, I would say I don't think it is fair.** I don't think anybody can object to that. I don't know what bearing that has upon the case. I don't decide that. I don't believe the facts justify your question, but I don't know.

Industry Restricted

Judge Gary also admitted that, while Chicago and other western industrial centers are restricted, Pittsburgh fabricators are able to compete all over the country. He testified thus:

Q. **As a matter of fact, isn't the territory of Pittsburgh throughout the United States, under the Pittsburgh basing system?**

A. **I think it is, if that is what you mean to ask me.**

Q. So far as the Chicago territory is concerned, the freight rates would govern its market. Is that true? * * * * In other words, they cannot go east to any considerable extent. That is true, is it not?

A. Yes, that is true.

Q. While the Chicago fabricator, under the Pittsburgh basis, cannot go into Pittsburgh, the Pittsburgh fabricator can go into Chicago. That is true, isn't it—under the Pittsburgh basing system?

A. Well, I should think so; yes—practically.

Q. So that if you had a mill base where the price was the same at Chicago as at Pittsburgh, under that condition the fabricator at Chicago could go halfway to Pittsburgh on an equality with the Pittsburgh fabricator coming to that same point? Is that true?

A. I should think so.

Abandon Western Plants

This testimony, as well as the facts, shows that western industry today has no cause for gratitude to "Pittsburgh Plus" for its existence, but that in many lines industry is being driven out of the west because of inability to compete with Pittsburgh. Judge Gary lays stress on "cost of production" as governing location, and yet he has admitted production cost in the Chicago district to be less than at Pittsburgh, and the figures given by his corporation corroborate his own statement made at Duluth.

Testimony in the pending case is voluminous that western fabricators are being compelled to abandon their western plants, or to build in or about Pittsburgh, and there is abundant evidence that "Pittsburgh Plus" has caused the failure of numerous western enterprises.

Abatement at Birmingham

That the full "Pittsburgh Plus" is not a fair or just device and does not precisely measure any difference which

conditions would justify is apparently conceded in the case of Birmingham. Here, as Judge Gary and other United States Steel Corporation officials have admitted, in order to stimulate southern industry, the full "Pittsburgh Plus" charge was removed and an arbitrary differential, first of $3 and later, with increased freight rates, of $5 per ton was imposed. On this point Judge Gary testified:

Q. The Birmingham price is purely arbitrary, is it not?
A. Which price?
Q. The price at Birmingham, which is the $5 differential above the Pittsburgh price.
A. I think it is. That is my impression, that it is arbitrary in the sense of the producer insisting upon it, probably, and the consumer consenting.

Several southern fabricators, long before the present suit, protested against "Pittsburgh Plus," and, as Col. Bope's testimony shows, there was continuous agitation for a change, so that southern industry might thrive. This finally resulted in the substitution of the differential for the full "Pittsburgh Plus" charge. While this differential aided southern manufacturers, as it is less than half the full "Pittsburgh Plus" charge, yet there is continued protest in the south because of the unfairness of any discrimination.

However, the fact that this differential and reduction of the "Pittsburgh Plus" charge was made for the purpose of fostering southern industry seems a complete refutation of the contention that western industry was "upbuilt under and because of 'Pittsburgh Plus'," since southern industry languished under it, and it required at least a partial abatement to stimulate industry in the south.

Therefore, it seems obvious that the contention of the mills on this score has little justification. Western industry certainly has a right to complain of a constantly increasing charge. Western industry can hardly be held to account for settling at favorable points of distribution, especially when the establishment of great western mills was a fact heralded at first as promising lower-cost steel.

Age No Justification

So far as "length of usage" is concerned as a justification for "Pittsburgh Plus," if this practice is economically wrong, and if it is unfair, unjust and imposes an unwarranted and insupportable hardship upon industry outside of Pittsburgh, the fact that this hardship is of long standing offers no additional reason for its further continuance. No additional respectability inheres to viciousness because of age.

Besides, there have been nebulous promises, from time to time, that "Pittsburgh Plus" would be abandoned in the west, and it was on the strength of such intimations that many industries located when and where they did. Others located at seemingly favorable points only to find that "Pittsburgh Plus" practically choked progress and even strangled the industry itself, while still others, expanding in times of exceptional prosperity, found later that they could not live under normal conditions because of this handicap.

Tearing Down and Building Up

One of the principal claims of the mills is that the entire controversy is merely a quarrel within the steel industry,

by which fabricators in the west and south are seeking to make a greater profit, at the expense of the legitimate profits of the mills.

That is, that the consumers will not really reap any benefit from the abolition of "Pittsburgh Plus," and that neither will the nation's industry, as a whole, be benefitted, but that the real result will be the "tearing down" of Pittsburgh, to build up other sections. This point is specifically made in the following statement of the Jones and Laughlin Steel Corporation, of Pittsburgh, to the Federal Trade Commission, in the pending case:

"The general effect of making Chicago a basing point would be a depreciation of investment in the Pittsburgh district and a call for new and additional investment in the Chicago district. This would mean tearing down in one district and building up in another without changing the country's total steel production and would also result in a depreciation—in some cases the destruction—of industries which have been built up in the Pittsburgh district to supply the needs of the iron and steel mills located there.

"It would be a narrow view of the question that would give consideration only to the steel industry of the country. Many other interests are necessarily affected—the merchant who has established himself under trade conditions as they now are with Pittsburgh as the basing point; the small manufacturer who buys a carload of steel or more and works it up into a hundred different articles; the workmen who own their own homes in the Pittsburgh district and who would be compelled to leave them to make homes elsewhere—the interests that would be affected are very many and the injury almost incalculable, because such interests represent the growth and development of this country for at least a century."

This is interesting!

But how about the small manufacturers and workmen and farmers and consumers elsewhere? Alas, of these the Jones & Laughlin answer says never a word.

"Graveyards" in Steel

And yet, it is claimed—and there are abundant facts to buttress the claim—that this practice handicaps industry everywhere, except in and about Pittsburgh; that it has caused numerous "graveyards" in the steel industry throughout the country, and that it levies a constant toll upon the ultimate consumer and the taxpayer as well as upon industry, that there may be no "tearing down" in Pittsburgh. That is, that Pittsburgh investments may be maintained unimpaired.

Are Pittsburgh investments clothed with such superior sanctity that the rest of the country must remain under constant tribute to them? If this argument is to be heard, it is further contended that no matter how economic conditions may alter; no matter what the future may bring in the way of discovery of new processes and new supplies of the basic materials of which steel is made; no matter what the future normal trend of industry and population, this same tender solicitude for Pittsburgh investments would prevent any change in method in the steel industry that might result "in a depreciation of industries which have been built up in the Pittsburgh district to supply the needs of the iron and steel mills located there."

Must the country forever remain under the domination of Pittsburgh and of those who have invested their money there, merely because a change would depreciate Pittsburgh investments? Why must an exception be made to the general rule of industry, which is that when a plant or a locality becomes obsolete for the production of a commodity, that the obsolete or obsolescent machinery must be sacrificed before newer methods or better locations?

The Rise of Pittsburgh

It was due to this rule that Pittsburgh itself became the leading factor in the steel industry. Prior to the advent of Andrew Carnegie, the principal seat of the industry was near Philadelphia and in New Jersey. Carnegie saw the opportunities of Pittsburgh. He started his mill at Pittsburgh and soon outstripped all competitors. The earlier eastern mills went down before the conquering Pittsburgh industrialist, and there was a "tearing down" in Philadelphia and New Jersey, that Pittsburgh might be built up.

But it was the country which benefited, for Pittsburgh was then far better situated for the economical and efficient production and distribution of steel. The iron ore, coal, coke and limestone were close at hand, and Pittsburgh was closer to the center of population, then, as since, constantly moving westward.

Pittsburgh will remain an important factor in the steel trade, even with "Pittsburgh Plus" relegated to the limbo of things forgotten, for Pittsburgh remains and will remain an important steel center, with a great manufacturing district surrounding it; with the central east as its natural and normal market, and protected by natural freight rates from other districts which may seek to encroach upon that market.

Can Pittsburgh—in the light of her past history in the steel industry—justly ask for more? Is Pittsburgh entitled to more? Is there anything sacrosanct about Pittsburgh which should give her more? And will not the nation as easily adjust itself to the new and changed conditions as it did to the change from Philadelphia and New Jersey to Pittsburgh as the seat of steel production? The plea of the Jones & Laughlin Corporation might be received with somewhat more toleration, if the element of sheer self-interest were not so plainly apparent.

What Is "Narrow View?"

"It would be a narrow view of the question that would give consideration only to the steel industry of the country." So states the Jones & Laughlin Corporation, and so say the opponents of "Pittsburgh Plus." But in their avoidance of this narrowness, the latter take into consideration the interest of the entire country—of the farmers, taxpayers, workmen and manufacturers in districts other than Pittsburgh—rather than the sole interest of Pittsburgh. The "narrow view," they say, is that Pittsburgh alone is entitled to consideration.

Against the contention that this controversy is merely a question of whether the steel mills or fabricators elsewhere than at Pittsburgh shall make an excessive profit, the opponents of "Pittsburgh Plus" counter heavily. They show

that they would not gain in profits by the abolition of "Pittsburgh Plus," but admit that they would gain vastly in being permitted their own rightful trade territory.

There is no "base price" in the products fabricated from steel to protect the fabricator against competition. He must operate under the normal laws of industry, which permit him to charge only actual freight. If he is favored by location so that he can sell cheaper than a competitor at a greater distance, he gets the business. If not, and he cannot make up for disadvantageous location by superiority of manufacturing methods, his competitor gets the business. That is the normal law of industry when some such practice as "Pittsburgh Plus" does not step in and clog its working. But under "Pittsburgh Plus," with Pittsburgh competing everywhere equally, there is no advantage of location outside of Pittsburgh.

Not a Quarrel Over Profits

That the fabricator does not get additional profits when "Pittsburgh Plus" is not operative is shown in the pending case by the testimony of numerous witnesses that sharp trade competition operates to keep prices down to a point where production cost plus a normal profit is all that can be gleaned. Irrefutable evidence of this is also afforded by the fact that when the "Pittsburgh Plus" charge was taken off steel plates, shapes and bars in the Chicago market in 1921, the price of agricultural implements and other steel products promptly moved downward. This would seem effectually to dispose of the claim that the "Pittsburgh Plus" controversy is only a quarrel over profits, but it is interesting to note that the mills, by implication at least, admit that under the operation of "Pittsburgh Plus" they are the ones who are actually making the excessive profit.

This apprehension of Pittsburgh over the passing of its supremacy in the steel trade is not new. It had happened before, with the erection of the United States Steel Corporation's great mill at Gary, and it was then that Col. Bope made the speech in which he told his Pittsburgh auditors that "the handwriting was upon the wall" for mills and plants in the Pittsburgh district.

Trend of Population

The trend of population is and has been westward. Also, there is a trend to the south. Still the greatest consumptive markets remain in the east, and probably will for some time to come.

However, in the west the markets are "gathering up," to use the words of Col. Bope. It was for this reason mainly that steel mills were established in the west and south—to be near the markets and close to the points of supply of raw material.

While the east is still the greatest center of consumption, and while increased export demand for manufactured products will add to the consumptive power of the east, the constant shifting of the center of population to the westward means increased consumptive demand in the west.

To insure better distribution facilities, it is highly desirable to have industry as close as is feasible and practical to

centers of population. This is recognized by manufacturing concerns in other lines in the establishment of branch plants near points of large and increasing consumptive demand.

But this does not hold with steel because of the tendency of "Pittsburgh Plus" to center all steel manufacture at Pittsburgh.

It is sometimes more desirable to establish plants at points where cost of manufacture is slightly higher than at others, because lower distribution costs more than compensate for this difference. It is for this reason that Pittsburgh, even without "Pittsburgh Plus," will remain an important seat of steel manufacture. But with "Pittsburgh Plus" in effect, these economies of distribution cannot be effected, because with the fabricators of Pittsburgh able to lay down their product at any point in the country upon an equality with local fabricators, the saving from lower distributing cost is lost.

Normal Trade Territory

A particularly grave charge brought against "Pittsburgh Plus" is that it is unfair in the denial to manufacturers of their normal trade territory, by permitting Pittsburgh manufacturers to compete on equal or better than equal terms, even in the home cities of local manufacturers.

That "Pittsburgh Plus" discriminates against manufacturers elsewhere than in and about Pittsburgh is manifest. The freight rate upon finished steel products is usually the same as upon raw steel. Consequently, assuming equal labor costs and efficiency of manufacture, it is plain that the Pittsburgh manufacturer can lay down his product in any city in the country on terms of exact cost equality with local manufacturers. In fact, in many cases, the Pittsburgh manufacturer enjoys a distinct advantage over local manufacturers, even in their home cities. This is because the Pittsburgh manufacturer, having the whole country as his trading territory, is able to reduce his average "overhead" charge.

But this does not really promote efficiency and economy. What is gained in this spread of "overhead cost" is more than offset by the additional unearned freight charges which consumers elsewhere must pay.

Doors of Opportunity Shut

With local manufacturers in other cities compelled to pay the same price for steel laid down at their plants as the Pittsburgh manufacturer pays for his finished product laid down in the same city, the doors of the steel trade throughout the country are widely opened to the Pittsburgh fabricators. But they are closed tight to fabricators elsewhere, except in their own immediate neighborhood, or in such cases where steel cost plays a relatively unimportant part of the cost of the finished product, or where the product is protected by patent, or where the difference in efficiency of operation is so heavily in favor of the local man that he can thus overcome the handicap imposed by "Pittsburgh Plus."

As illustrative of the manner in which Pittsburgh dominates the steel trade, the fact that when the western manufacurer seeks to sell to the eastward of his plant, he is at

once heavily handicapped, must be obvious. He must pay the unearned freight charge on his raw steel from Pittsburgh to his plant, and the actual earned freight on the goods he ships eastward, while the Pittsburgh manufacturer only pays the actual earned freight charge to the point of destination of his goods. This caused a Minnesota manufacturer of tractors to remark wittily that the state of Minnesota is industrially "bounded on the east by 'Pittsburgh Plus'."

Here again it is matter of complaint that "Pittsburgh Plus" takes no account of efficiency and economy of production or distribution, either in basic steel or finished products, but arbitrarily centers the manufacture of most steel products in the neighborhood of Pittsburgh. This prevents that diffusion of industry which the nation demands in order that its industrial lifeblood may flow healthfully through its arteries at all times, and that prosperity may be generally diffused and constant. It also tends to prevent the utilization of superior facilities for manufacturing elsewhere than in Pittsburgh.

Diffusion of Industry

This is harmful where the point of centralization is not that of most economical and efficient production and distribution. Yet arbitrary centralization of industry invariably has a tendency to veer away from points of most efficient and economical production and distribution, since it is costly to make changes.

But the war demonstrated the advisability of widely diffused industry. There are numerous reasons for this. When a sudden great demand is made upon production it is a practical impossibility to mobilize and house an adequate labor or material supply in a single point, especially when this point is not the one most advantageously situated.

Besides, it is highly desirable to have prosperity generally diffused, but this is plainly impossible where certain sections are discriminated against.

Advance in Freight Rates

In the early days of the "Pittsburgh Plus" practice its effects were not so severely felt, especially in the west, because freight rates were then relatively low. In 1901, when "Pittsburgh Plus" became settled practice, the rate from Pittsburgh to Chicago was only $3 per ton. In 1920 it reached its peak of $7.60 per ton. Since then the freight rate on steel has been reduced 10 per cent, and today the rate from Pittsburgh to Chicago is $6.80 per ton.

Between 1901 and now the rate has been increased over 125 per cent, while the increase between 1901 and the peak rate of $7.60 was approximately 153 per cent.

Therefore, the industries established in and about the western steel producing centers were not subject to anything like the present severe hardships, when "Pittsburgh Plus" first became settled practice. This is evidenced by a historical comparison of the freight rates from Pittsburgh to Chicago from 1901 to the present. What occurred with the rate to Chicago held true in even greater degree in the cases

of other steel producing centers, such as Duluth. The following table shows how the rate increased from 1905:

February 21, 1905	$3.60 per ton
July 1, 1906	3.78 per ton
September 20, 1917	4.30 per ton
June 25, 1918	5.40 per ton
September 1, 1920	7.60 per ton

(Rates to all other points advanced in proportion.)

Even the most enterprising and aggressive western manufacturers, when this differential came to be from 15 to 20 per cent of the total cost of their product, were in most cases either out of the market or restricted to their own immediate environment.

Handicap to West

The injury suffered by western and southern industry because of "Pittsburgh Plus" is the most vital matter connected with this practice.

The most serious factor is the denial to western industry of its own normal trade territory, and the permission of Pittsburgh competition throughout the country.

Also, the denial to the west of quantity production, because of restriction of sales territory, is a tremendous handicap, while inability of western factories, under normal conditions, to sell at all to the eastward is another evil effect of "Pittsburgh Plus."

Judge Gary, in his testimony, referring to western fabricators, said:

> "His (the western fabricator) market is the other way, largely in the west, and he makes his profits that way."

In another part of his testimony, Judge Gary also stated that "He (the fabricator) locates where he can make the most money."

This, in connection with the fact that fabricators in all parts of the country except Pittsburgh are restricted in their business seems to indicate pretty clearly that so long as "Pittsburgh Plus" holds sway there will be no decentralization of the steel industry, no diffusion throughout the country, no matter what the advantages of other localities.

Handicap to Other Sections

While western industry suffers the severest handicap, other sections are also at a distinct disadvantage.

The United States Steel Corporation mercifully substituted an arbitrary differential, first of $3 per ton, and later, with increased freight rates, of $5 per ton, to take the place of the full freight from Pittsburgh to Birmingham, which at one time was $15.30, and is now $11.60 per ton, nevertheless, southern industry is severely penalized.

The differential of $5 per ton, utterly unwarranted by difference in cost of production, is sufficient to prevent any great growth of the steel industry in the south.

However, the ultimate consumer in the south is obliged to pay this $5 differential, and naturally, he rebels against it. Besides, there is a great deal of trade territory which southern fabricators should have in which they must nevertheless meet Pittsburgh upon practically even terms. These are markets in which the actual freight from the point of location of southern factories, plus the $5 differential, is no

greater, or approximately the same as the freight from Pittsburgh to such points. These are numerous, and in them the southern fabricator is at a distinct disadvantage.

Handicap of Duluth

The case of Duluth is one of exceptional hardship. Regardless of whether Duluth is a relatively low-cost or high-cost producer, the fact remains that the amount of "plus" which must be paid by the Duluth fabricator far exceeds any possible difference in steel production cost. As Duluth is restricted in trade area, and as Pittsburgh is able to compete on exactly equal terms in that restricted area, it is manifest that there can be little improvement in steel industrial conditions in the territory normally tributary to the Duluth mill of the United States Steel Corporation. In fact, that territory derives little, if any benefit from the location of the mill in Duluth.

The mills complain that there is little market for the product of the Duluth mill in normal Duluth territory. Naturally, there is little, for there can be little steel fabrication there, with Pittsburgh allowed free entry into Duluth's markets in equal and usually better than equal competition with Duluth fabricators.

Handicap of the East

While the greatest handicaps to industry which "Pittsburgh Plus" imposes fall upon the west and south, eastern industry is also injured.

Theoretically, this injury is as grave as that done the west and south. Practically, it is not so acute. Nevertheless, the east feels the effects of "Pittsburgh Plus" strongly, for it is deprived of all advantages from such great steel mills as those located at Bethlehem, Lebanon and Steelton, Pennsylvania; at Sparrow's Point, Maryland; at Buffalo, and other mills.

In the east, as in the west, Pittsburgh can compete upon equal or better than equal terms everywhere. Because the difference in freight rates is less, many eastern industrial concerns are able to absorb the unearned charge and still prosper. But they do not prosper to the same degree as they would if given the advantages of location which are rightfully theirs.

This inequality of steel cost in the east is important, and often spells the difference between success and failure.

These inequalities are vividly shown in the subjoined tables. The rates given are those in effect prior to the last rate reduction, which are 10 per cent higher than the present rates, for which allowance should be made.

The Bethlehem Steel Corporation, prior to its absorption of the Lackawanna and Midvale Companies, shipped large tonnages of steel into the Pittsburgh and western districts. By shipping out of its natural district, the actual freight paid to ship the steel from Bethlehem was more than the "Plus" which was added to the Pittsburgh price.

In the following table a price of $50 per ton is assumed for one ton of standard structural shapes. It shows the net selling price received at various cities and reveals that steel

sold to customers near Bethlehem netted the mill from 5 to 20 per cent more than the selling price at various eastern and midwestern cities. It also shows the net selling prices after adding the "Plus" and deducting the actual freight paid.

Bethlehem's Prices

Thus it is shown that a ton of seel shipped to Pittsburgh nets the Bethlehem mill 25 per cent less than the price of a similar ton of steel at Bethlehem, while at points west of Pittsburgh the net price averages about 20 per cent less than the price at Bethlehem. The table follows:

Shipped To	Plus Added	Delivered Price	Actual Freight Paid	Net Price of Shipment
Bethlehem, Pa.	$ 7.00	$57.00	$ .00	$57.00
New York, N. Y.	7.60	57.60	3.20	54.40
Philadelphia, Pa.	7.00	57.00	2.90	54.10
Baltimore, Md.	6.70	56.70	4.20	52.50
Richmond, Va.	8.40	58.40	6.30	52.10
Pittsburgh, Pa.	.00	50.00	7.00	43.00
Cleveland, O.	4.80	54.80	8.50	46.30
Cincinnati, O.	6.50	56.50	10.60	45.90
Louisville, Ky.	7.40	57.40	12.20	45.20
Indianapolis, Ind.	6.90	56.90	11.30	45.60
Detroit, Mich.	6.50	56.50	9.40	47.10
Chicago, Ill.	7.60	57.60	12.20	45.40
St. Louis, Mo.	9.50	59.50	15.30	44.20
Milwaukee, Wis.	8.30	58.30	12.20	46.10
Minneapolis, Minn.	13.20	63.20	16.30	46.90

Lackawanna's Prices

Relatively, the same conditions hold true of Buffalo, where the great Lackawanna mill is located. Under "Pittsburgh Plus," the Lackawanna mill also netted a higher price for its steel from fabricators located in Buffalo and nearby or natural territory, than it did when it shipped into the normal territory of Pittsburgh and western mills, as is shown in the following table:

Shipped To	Plus	Delivered Price	Actual Freight Paid	Net to Mill
Buffalo, N. Y.	$5.90	$55.90	$ .00	$55.90
Rochester, N. Y.	5.90	55.90	2.50	53.40
Syracuse, N. Y.	6.30	56.30	3.90	52.40
Schenectady, N. Y.	7.60	57.60	4.80	52.60
(New England Common Points)	8.10	58.10	7.30	50.80
Erie, Pa.	4.90	54.90	3.30	51.60
Pittsburgh, Pa.	.00	50.00	5.90	40.10
Cleveland, O.	4.80	54.80	5.50	49.30
Detroit, Mich.	6.50	56.50	5.90	50.60
Chicago, Ill.	7.60	57.60	7.60	50.00

It is obvious, therefore, that Philadelphia derives no benefit from the great mills of the Bethlehem company, nearby; Baltimore industry derives no benefit from the great mill at Sparrow's Point, only a short distance away; Buffalo derives no benefit from the mill of the Lackawanna company, on its outskirts; and New York cities near Buffalo are also deprived of their rightful advantages from the location of the Lackawanna mill.

The production costs of these mills are said to be low, and readily comparable with those of Pittsburgh. Yet, with

"Pittsburgh Plus" in effect, the east obtains no benefit from this economical production, the sole advantage going to the mills in the form of unearned profits.

How East Pays Tribute

As indicating how the entire east is under tribute to "Pittsburgh Plus," the following table is interesting. Comparison of freight rates from other mills with the rate from Pittsburgh to the various eastern industrial centers given will show the amount of the exaction to which they are subjected.

The table shows the June, 1922, freight rates on one ton of finished steel from various steel mills to eastern industrial centers. Present rates are 10 per cent lower than those tabulated, which makes a slight but not important difference.

PENNSYLVANIA POINTS

From	To Philadelphia	To Scranton	To Pittsburgh	To Erie
Pittsburgh, Pa.	$7.20	$7.00	....	$4.90
Bethlehem, Pa.	2.90	2.90	$7.00	....
Reading, Pa.	2.50	3.90	7.00	....
Lebanon, Pa.	2.90	4.20	7.00	....
Steelton, Pa.	3.20	4.20	6.40	....
Sparrow's Point, Md.	3.20	4.20	6.60	....
Johnstown, Pa.	6.60	6.60	4.20	....
Buffalo, N. Y.	7.00	7.00	5.90	3.30

NEW YORK POINTS

From	To New York	To Rochester	To Syracuse	To Schenectady
Pittsburgh, Pa.	$7.60	$5.90	$6.30	$7.60
Buffalo, N. Y.	7.00	2.50	3.90	4.80
Bethlehem, Pa.	3.20	5.00	5.00	5.00
Sparrow's Point, Md.	4.20	5.00	5.00	7.10
Johnstown, Pa.	7.10	6.00	7.10	5.00
Steelton, Pa.	4.20	5.00	5.00	5.00
Lebanon, Pa.	4.20	5.00	5.00	5.00
Reading, Pa.	4.20	5.00	5.00	5.00

NEW ENGLAND POINTS

To Portland, Me.; Rutland, Vt.; Manchester, N. H.; Boston, Mass.; New Haven, Conn., and Providence, R. I.

From Pittsburgh	$8.10
From Bethlehem, Steelton, Lebanon, Reading and Sparrow's Point	5.70
From Buffalo	7.30
From Johnstown	7.80

The ultimate consumer of the east is compelled to pay the higher prices—equally with the consumer of the west—which the "protection" arranged by the steel mills through the "Pittsburgh Plus" device imposes.

Wastage

Another advantage which the Pittsburgh manufacturer has over his competitors in certain branches of the steel industry is in the wastage involved in the manufacturing process.

In drop forgings, screw machine products and a number of other similar products, this wastage is an important item. It runs from 10 to 65 per cent of the total amount of steel used. A fair average would be about 25 per cent.

To produce 1,500 pounds of finished steel products, the western manufacturer must purchase a ton of steel. He

must pay the mythical freight on that ton, while his Pittsburgh competitor pays only the actual freight upon the 1,500 pounds of finished product. The difference constitutes the handicap under which the western manufacturer labors in his own home city, and this handicap is increased if he ships eastward.

The handicap in this variety of steel products is greater than in many others because of the small bulk of the articles produced. They do not require large quantities of steel and therefore manufacturers usually buy their steel in less than carload lots. The difference at Chicago, therefore, instead of $6.80 per ton, which is the carload freight rate from Pittsburgh, is $9.80 per ton, which is the less than carload freight rate.

The Pittsburgh manufacturer, delivering at Detroit, which is the great market for this class of steel goods, pays only the actual freight charge from Pittsburgh, which is $3.60 per ton, and he pays only $2.70 on the 1,500 pounds of finished product obtained from each ton of raw steel he uses. The Chicago man first pays $6.80 per ton of mythical freight from Pittsburgh on his raw steel—bought at a Chicago mill—and then pays the actual freight of $2.40 to Detroit on the 1,500 pounds of finished product. That is, to lay down 1,500 pounds of finished product in Detroit, the Chicago manufacturer must pay a freight charge—earned and unearned—of $9.20, while the Pittsburgh manufacturer pays only $2.70.

This computation is on the carload freight rate. On the less than carload rate there is an increase of approximately 40 per cent, and this adds just that much to the Chicago manufacturer's handicap. But it does not stop there. The wastage is sold as "scrap," and this is sold "Pittsburgh Minus," that is, the freight from Pittsburgh is deducted from the price. The result is that the Pittsburgh manufacturer gets about $4 per ton more for his scrap than the Chicago manufacturer.

Manufacturers at other points—east and west, south and north—are affected in precisely the same manner.

The Jobbers' Interest

There is one branch of the steel industry in addition to the mills which heartily favors "Pittsburgh Plus." This consists of the "jobbers," or those merchants who carry stocks of steel and sell mainly to the smaller manufacturers.

The jobbers buy their steel in carload lots and stock it in their warehouses. They sell it mainly in less than carload lots. They pay "Pittsburgh Plus" at the rate of $6.80 per ton at Chicago for their purchases, and when they sell they charge the less than carload freight rate from Pittsburgh to Chicago, or $9.80 per ton, a net unearned profit of $3 per ton.

Cross Hauls

The Jones & Laughlin Corporation insists that if Chicago is made a basing point "the railroads such as the New York Central and the Pennsylvania will lose large revenues by reason of lessened traffic, or freight rates will have to be materially reduced in order to give the mills in the Pittsburgh district an opporunity to compete for the business in the Chicago district and in the territory west, northwest and southwest of Chicago; and it follows, as a matter of course, that if multiple basing points are established other railroads will be similarly affected; they will lose traffic unless freight rates are reduced."

This is an earnest plea on behalf of the railroads, but the only meaning which can be attached to it is that if the "Pittsburgh Plus" practice is abolished purchasers of steel will buy from the mill nearest them and consequently reduce the amount of hauling to be done.

The Jones & Laughlin Corporation insists that the only way to remedy this situation would be rate reduction, which, it contends, would also work to the injury of the railroads. This indicates that Pittsburgh interests, now so eagerly mindful of the railroads, would, with "Pittsburgh Plus" abolished, demand a lowering of freight rates so that they might get into other markets. They are now perfectly content with existing high freight rates which prevent industries located elsewhere from competing with them in their own normal markets but, with "Pittsburgh Plus" in effect, permit them to compete everywhere.

With Pittsburgh enabled to compete throughout the country, and with western mills shipping to the east, as is done, present conditions promote a vast unnecessary haulage of steel.

There is westward shipping from Pittsburgh and the eastern mills; there is eastward shipping from the western mills; there is eastward shipping from Pittsburgh to eastern fabricators; in fact, there is a veritable maze of criss-crossing in shipments which is largely unnecessary.

True, the railroads might suffer somewhat by the abolition of "Pittsburgh Plus"—at least temporarily—until the inevitable readjustment would follow. But how about the consumer? How about the nation's industry as a whole? Are not these more important considerations than the assurance of greater revenue to steel mills; to Pittsburgh industry, and to the railroads? It is a short-sighted view which will place a few special interests above the interests of the whole country.

No Injury to Roads

Besides, it is more than doubtful if the railroads would really suffer. Annually the cry of shortage of cars is raised by the railroads at times when cars are acutely needed for crop movement. The abolition of unnecessary hauling of steel would unquestionably release a vast number of cars for other purposes. This would not injure the railroads, but would benefit them and would be of incalculable benefit to the nation's consumers and its agriculture.

In addition, the general diffusion of industry and its decentralization, bound to follow the abolition of "Pittsburgh Plus," would unquestionably promote shorter haul railroad business, which should at least offset any disadvantage to the railroads due to the loss of long haul business.

The great transcontinental roads which handle steel shipments out of the Pittsburgh district might suffer somewhat, but their loss would be the gain of smaller and weaker roads

doing a more local business, and this would be healthy for transportation and industry generally.

Whether the railroads would suffer some loss of revenue, however, is not really the important issue. What actually concerns the nation is whether it is handling its industry and transportation to the best possible advantage.

Water Transportation

It is rather a curious commentary upon the Jones & Laughlin Corporation's solicitude for the railroads to note its attitude with reference to waterways.

The Jones & Laughlin Corporation is an earnest advocate of improved interior waterways, especially of the improvement of the Ohio and Mississippi rivers. In 1922 this company spent a great deal of money in advertisements throughout the middle west asking support for appropriations for improved dockage and navigation facilities on the Ohio and Mississippi. It advertised the economies in transportation costs that would be thus effected. But these economies certainly would be at the expense of the railroads, inasmuch as freight carried by water would be diverted from the rails. However, the Jones & Laughlin Corporation would profit therefrom because its distribution costs would be lowered, but, with "Pittsburgh Plus" in effect, the public would reap no benefit.

This is serious. Millions—even billions—of dollars have been, are being and are planned to be spent upon the development of interior waterways, but the public expenditure of funds for waterway development will be wasted, so far as the steel industry is concerned, unless "Pittsburgh Plus" is abolished.

This was strikingly shown in 1921 when "Pittsburgh Plus" was removed on plates, shapes and bars in the Chicago market. There was then actual sharp competition by the mills for business. In the west what business there was went mainly to the Chicago mills, because they could deliver throughout their normal trade territory at a less price than the Pittsburgh mills.

Reason for Barge Lines

Thereupon, Pittsburgh steel producers, suddenly awakened to the necessity of efficient distribution. They installed their own barge lines on the Ohio and Mississippi rivers and advertised widely that they were thereby effecting great economies from which their customers who were tributary to these rivers would benefit.

When the economies of the new barge lines were analyzed, however, it was found that the prices made by the Jones & Laughlin Corporation and other Pittsburgh producers at Ohio and Mississippi river points were designed almost exactly to meet the competition of the Chicago mills. That is, the prices at these river points were practically the same as Chicago prices plus the actual rail freight from Chicago.

With the complete re-establishment of "Pittsburgh Plus," however, these economies to customers would vanish and the full rail freight from Pittsburgh would be charged to these river points. There would be a saving from more efficient and economical distribution which water transportation af-

fords, but this saving would merely be reflected in added profits and would go into the coffers of the steel mills.

Is it conceivable that the nation will spend these vast sums of money, the sole result of such expenditure, so far as one of the leading industries of the country is concerned, being that steel producers would benefit in pocket, with no resultant benefit to the millions of people who pay for the improvements?

Agriculture

As a class, the farmers are the greatest purchasers of rolled steel products, and consequently the greatest contributors to the "Pittsburgh Plus" toll.

On June 26, 1922, James R. Howard, then president of the American Farm Bureau Federation, testified in the pending case that the annual consumption of rolled steel on the average American farm is in excess of one ton.

The following table, offered by Mr. Howard, shows the principal articles used on the average farm, the amount of steel contained in each, the average length of service, the number used on each farm and the annual consumption of rolled steel by articles. The rolled steel is figured conservatively in every case and is from 15 to 20 per cent below the actual farm consumption.

Article	Steel Used Pounds	Life Years	Number Used on Farm	Annual Consumption Pounds
Two-horse wagon	350	10	2	70
Grain binder	900	10	1	90
Corn binder	900	10	1	90
Gang plow	500	10	1	50
Sulky plow	300	10	2	60
Disc harrow	300	10	1	30
Harrow	300	10	1	30
Drill	450	10	1	45
Cultivator	450	10	2	90
Hay rake	350	10	1	35
Feed grinder	50	10	1	5
Mower	2200	10	1	20
Corn sheller, power	600	10	1	60
Tedder	400	10	1	40
Ensilage cutter	300	10	1	30
Threshing outfit	4000	10	1/5	80
Gas engine, small	40	10	1	4
Gas engine, large	180	10	1	18
Automobile	1400	3	1	467
Tractor	3000	4	1/30	25
Manure spreader	1000	10	1	100
Cream separator	200	10	1	20
Wire fence	5120	12	..	427
Staples	80	12	..	7
Nails	100	1	..	100
Windmill and tower	1100	10	1/5	22
Total annual consumption, pounds				2015

The number of farmers in the eleven leading mid-western agricultural states—Illinois, Indiana, Michigan, Wisconsin, Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska and Kansas—is 1,925,000 and the average size farm is 183 acres, according to the figures of the Federal Census Bureau.

Farmers Pay Millions

Based on the freight rates then in effect, Mr. Howard estimated that if all the farm implements used in these eleven states had been made in Moline, Illinois, where the "Pittsburgh Plus" charge then amounted to $6.50 per ton, the added cost due to "Pittsburgh Plus" would have been $12,705,000. If these implements had been made in Chicago, where the "Pittsburgh Plus" charge was then $7.60 per ton, the added cost would have been $14,630,000. As there has been a freight rate reduction of 10 per cent since that time, these figures should be correspondingly reduced, making the present Moline toll approximately $11,435,000 and the Chicago toll approximately $13,070,000.

Mr. Howard further stated that while no definite figures had been gathered for the rest of the country, it was a fair and conservative estimate that the agricultural implements used in the other states would be valued at more than the aggregate value of those used in the eleven states cited. This would mean that if all the farm implements in the country were made at Moline or any other point where the "Pittsburgh Plus" charge was approximately the same, this charge would cost the farmers of the country not less than $25,000,000, while if these implements had been made at Chicago or any point where the "Pittsburgh Plus" charge was approximately the same, the exaction would have been increased considerably.

Implements Cost More

Figures submitted in the pending case by Deere & Company, agricultural implement manufacturers of Moline, Illinois, show strikingly the extent of the "Pittsburgh Plus" charge at that point and its effect in increasing the cost of farm machinery. These figures are as follows:

Riding cultivator	$ 1.23
Mower	1.28
Disc harrow	1.89
Corn planter	1.93
Sulky rake	2.60
*Grain drill	3.06
Gang plow	3.61
Tractor plow	6.28
Corn binder	6.88
Grain binder	6.98
*Tractor	19.80

* Grain drills are made at Horicon, Wis., and tractors at Waterloo, Iowa. Freight is computed to these points.

There are many other articles made of rolled steel in addition to agricultural implements which are used on the farm. These include tools of various kinds; household utensils, downspouts, silo bands, automobiles and a vast variety of other items.

It is in evidence that this charge, which is added to the cost of production by all of the agricultural implement makers and all other manufacturers, is at least doubled by the time it reaches the farmer. This is due to profits of manufacturers, overhead charges, profits of middlemen, etc. Therefore, it is a fair deduction that the ultimate direct cost of "Pittsburgh Plus" to the farmers of the country is between $50,000,000 and $75,000,000 a year, and probably nearer the latter than the former figure.

Wire and Nails

The farmer is perhaps the largest user of wire and wire nails. "Pittsburgh Plus" appreciably increases their cost to him. This applies in all parts of the country.

The following table shows a comparison of freight rates from Pittsburgh, Chicago, Duluth and Pueblo to western cities.

The great mill of the Colorado Fuel and Iron Company, at Pueblo, Colo., has an annual producing capacity of 300,000 tons of plain wire and 2,500,000 kegs of wire nails, and can no doubt supply the demand of the entire Rocky Mountain territory, but nevertheless, in that district "Pittsburgh Plus" increases the selling price 53 cents on a keg of nails or a bundle of wire of 100 pounds.

When a Denver, Colo., consumer buys a keg of nails shipped from Pueblo, he pays an unearned freight rate of $1.08½ per keg, for the rate from Pittsburgh to Denver is $1.26 per hundredweight, while the rate from Pueblo is only 18½ cents per hundredweight.

At Minneapolis the difference in freight to Pittsburgh and Duluth is 44½ cents, which is the unearned freight a Minneapolis purchaser of nails or wire would pay on nails shipped from Duluth.

The unearned freight at any point can be ascertained by deducting the actual freight from the nearest nail mill from the rate from Pittsburgh in the following table:

CAR LOAD FREIGHT RATES PER HUNDRED POUNDS
(PRESENT RATES)

To	From Pittsburgh	From Chicago	From Duluth	From Pueblo
Spokane, Wash.	$1.50	$1.35	$1.13	$0.97
Portland, Ore.	1.50	1.35	1.13	.97
San Francisco, Cal.	1.50	1.35	1.13	.97
Phoenix, Ariz.	1.50	1.35	1.13	.97
Reno, Nev.	1.50	1.35	1.13	.97
Boise, Idaho	1.50	1.35	1.13	.97
Helena, Mont.	1.50	1.35	1.13	.97
Guernsey, Wyo.	1.50	1.35	1.13	.97
Salt Lake City, Utah	1.50	1.35	1.19	.55½
Denver, Colo.	1.27	.93	.93	.18½
Albuquerque, N. M.	1.47	1.12	....	.69
Dallas, Tex.	.97½	.77½	....	.69½
Oklahoma City, Okla.	.97½	.76½	....	.69½
Wichita, Kan.	1.11	.86	.92	.67
Omaha, Neb.	.73½	.41½	.41½	....
Aberdeen, S. D.	.76	.56½	.45	....
Fargo, N. D.	.96	.57	.36	....
Minneapolis, Minn.	.60	.27½	.15½	....
Milwaukee, Wis.	.37	.08	.30½	....
Waterloo, Iowa	.55	.27½	.30½	....
St. Louis, Mo.	.43	.21½	.36	....

The southern farmer also suffers from increased prices which he pays for wire and nails, despite the fact that Birmingham is a large and low-cost producer. However, the Birmingham mills reap a huge profit from shipments of wire nails and other steel products to the Pacific coast.

In the *Daily Metal Trade,* one of the leading iron and steel trade papers, of December 28, 1922, appeared the following item:

> Birmingham, Ala., Dec. 27.—Birmingham and Gadsden wire drawing mills save $17,000 monthly in freight on the 1,000 tons of wire nails and other steel products which have been shipped by them to the Pacific coast each month for some time through the port of Mobile.
>
> The saving to shippers by routing these products through Mobile is said to be $17 a ton. Where the products are shipped to Mobile by the Warrior river, as is frequently done, there is an additional saving of 50 to 60 cents a ton.
>
> The most recent steel cargo out of Mobile, the second this month, carried more than 1,000 tons of wire mill products to Portland, Seattle, San Francisco and other western points.

The Pacific coast reaped no advantage from these shipments, as "Pittsburgh Plus" was charged on them. The south reaped no advantage. And there was no economic advantage to consumers of the nation due to cheap water transportation. The sole advantage went to the U. S. Steel Corporation.

The American Steel and Wire Company, a subsidiary of the U. S. Steel Corporation, obtained an unearned profit of $17,000 on this one shipment of 1,000 tons. At the rate of only one such shipment per month, this company's annual unearned profit from this one item, from only one of its mills, would be $204,000 per year.

Farmer Sells "Market Minus"

Another complaint of the farmer against "Pittsburgh Plus" is that on the economic side it apparently works in a different manner than the marketing of farm products. He complains that because of "Pittsburgh Plus" the things he buys cost him more, while his product is sold "Market Minus," and he reaps no benefit from the fact that he is himself often a surplus producer.

The farmer cannot "stabilize" his business as the steel mills do. Steel is largely made on order, and the suppply can be regulated to meet the demand. Grain is practically sold at auction. The supply cannot be regulated at planting time because the demand is an unknown quantity, and a still greater unknown quantity is the yield which will be produced in any one year.

Steel is sold by the mills subject to delay by strikes, accidents or other causes over which they have no control. Grain is not and cannot be sold that way.

In the case of wheat, for illustration, the point of surplus supply is probably in Kansas, but Kansas gains nothing from this, as the actual freight to market is deducted from the price. That is what the farmer means by saying that his product is sold "Market Minus," while for steel he must pay "Pittsburgh Plus."

Besides, the price of grain is constantly changing, while

the price of steel is more constant, frequently not changing for months at a time.

No Control of Farm Products

There can be no such device as "Pittsburgh Plus" upon farm products, because these are not subject to close control. There are over six million farmers in the United States and less than two hundred producers of rolled steel, of which one concern, the United States Steel Corporation, produces about 45 per cent of the entire output.

Practically every farmers' organization in the country, following the lead of the American Farm Bureau Federation, is up in arms against the "Pittsburgh Plus" practice.

The American Farm Bureau Federation early took a stand against this practice and was largely instrumental in bringing about the issuance of a complaint by the Federal Trade Commission through the aid afforded in the proceedings before that body.

Another of the farmers' complaints against "Pittsburgh Plus" is because this practice operates to centralize the steel industry in and about Pittsburgh and deprives other localities of their industrial advantages. This deprives farmers near struggling industrial centers which have potential possibilities for steel manufacturing of the advantages of a nearby home market. This is important, as such home markets tend to stabilize the prices of farm products and render neighboring farmers less dependent upon distant markets.

This is a form of "stabilization" with which the farmer is quite familiar and he resents being deprived of it.

Roads, Public Buildings, Taxes

Another item in which the farmer is acutely interested is the cost of hard roads, which is increased notably by "Pittsburgh Plus." What this increased cost amounts to throughout the country it is almost impossible to compute, but the American Farm Bureau Federation compiled figures for ten states in 1921 which shed an illuminating light on the subject.

In that year S. E. Bradt, then state highway engineer of Illinois, estimated that 16½ tons of steel are required on the average for each mile of hard roads constructed in Illinois. This steel is used for reinforcing rods, bridges and culverts. On this basis, the hard roads program of the nation would be taxed many millions of dollars by "Pittsburgh Plus." Early in 1921 the American Farm Bureau Federation sent out a bulletin, containing the figures it had gathered. This bulletin follows:

"Pittsburgh Plus" and State Roads

> **The Department of Transportation presents some revealing figures as to the cost of "Pittsburgh Plus" in the building of roads. State highway engineers were requested to submit the estimates of the amount of steel to be used on roads to be built within the next four years. The excess cost of shipping steel from Pittsburgh to typical points in each state as compared to the cost from the nearest steel mill was set down as the "average cost of 'Pittsburgh Plus.'" The figures show that in ten states the extra toll paid to**

"Pittsburgh Plus" during the next four years on roads alone will run nearly $2,000,000. Mostly farmers' taxes will pay this. The figures are as follows:

State	Amount of Steel Used	Av. Cost of "Pittsburgh Plus" Per Ton	Total
Illinois	4,000 miles	$ 7.00	$504,000
(16½ tons per mi.)			
Alabama	12,000 tons	10.00	120,000
Montana	900 tons	7.00	6,300
(Amt. for bridges unknown)			
Nevada	1,450 tons	7.00	10,150
Arizona	1,200 tons	7.00	8,400
Michigan	16,000 tons	2.00	32,000
Washington	28,000 tons	7.00	196,000
Wisconsin	50,000 tons	7.60	380,000
Arkansas ...	25,000-30,000 tons	7.00	200,000
Minnesota	60,000 tons	7.60	456,000
Direct cost for 10 states; 260,000 tons.........			$1,912,850

The farmer is also interested in the cost of public buildings, in which the "Pittsburgh Plus" charge runs into huge figures annually.

Swell Tax Burdens

All of these items go to swell the tax burdens of the farmer, but they also go to swell the tax burdens of all other consumers and taxpayers, who are, therefore, all equally interested in the effect of "Pittsburgh Plus" in increasing taxation.

However, even more than in taxation, the ultimate consumer is interested in commodity prices, and there is no question that "Pittsburgh Plus" operates to keep these on a higher level, as was admitted by Judge Gary.

It is because of the influence of "Pittsburgh Plus" in keeping commodity prices at an unduly high level that numerous organizations, led by the National Association of Purchasing Agents, have taken an earnest interest in the controversy.

Price Fixing and Detection

One advantage "Pittsburgh Plus" unquestionably has for the mills—but upon which they lay little stress—is that it renders the quoting of prices a somewhat simpler matter, and that it is quite effective in bringing about detection and therefore prevention of price-cutting. This is shown by an article in the *Manufacturers Record,* of Baltimore, "The Real Reason for Steel Basing Point at Pittsburgh Not Always Stated." This article, friendly to the mills, sets forth the advantage to them from this point of view quite accurately in the following words:

> "Usually a steel producer is eager to book orders and would shave prices a trifle if there were no danger in doing so. But, with the Pittsburgh basing, a cut price is clearly marked, and the whole trade, buyers and sellers alike, regard the cut as being a cut of the Pittsburgh price; in other words, a cut of the whole market, so the tendency is for one cut to lead to another. Fully realizing this, the individual producer is usually opposed to making a single price cut, recognizing the possibility of its reacting upon him by establishing a lower level for the entire market throughout the country."

That is all very well from the standpoint of the steel producer, but how about the law and how about the consumer? The article shows clearly enough that the effect of "Pittsburgh Plus" is to restrict competition, for the so-called "shading" of prices is really the result of competition in an unrestricted market and there is little doubt that the *Manufacturers Record* is correct in stating that the tendency of this character of competition is to bring about a lower price level.

But that is the purpose of the law—to bring about lower prices for commodities when non-competitive conditions set them upon a level higher than actual trade conditions warrant. If the conclusions of the *Manufacturers Record* are correct, then "Pittsburgh Plus" destroys competition.

If this be true, it is contrary both to the Clayton Act and the Federal Trade Commission Act, which are designed to foster competition and prevent unfair trade practices. It is idle to discuss the desirability of these laws. They are upon the statute books and so long as they remain there are meant to be obeyed.

Besides, the consumer is by no means so closely concerned in rendering the detection of price-cutting easy as he is in obtaining the commodities he buys at a reasonable price.

Chicago a Basing Point

As has already been noted, there were only a few periods since 1901 during which "Pittsburgh Plus" was not in complete effect. One of these was from September, 1917, to July, 1918. That was interesting, inasmuch as it had no reference whatever to any of the usual reasons given as accounting for a temporary cessation of the "Pittsburgh Plus" practice. This exception was due to an order of the War Industries Board establishing Chicago as a basing point for steel on a parity with Pittsburgh.

During 1917 the nation was in a frenzy of effort for the production of war material. The Pittsburgh district and the east were doing their share in supplying the country's requirements, but the west was unable to do so because of "Pittsburgh Plus."

Several departments of the government, notably the war and navy departments and the controller, also objected to the "Pittsburgh Plus" charge on materials furnished.

To stimulate western production the War Industries Board, in September, 1917, ordered the removal of "Pittsburgh Plus" in the Chicago market and the establishment of Chicago as a basing point on steel plates, shapes and bars on a parity with Pittsburgh. The effect of this was felt almost immediately. Western manufacturers at once began to contribute their share of the nation's war material. Also, they hailed the enforced abolition of "Pittsburgh Plus" as a harbinger of better conditions to come, as it was intimated that the change in price-basing conditions would be permanent.

West Becomes Active

Thereupon, western industry became equally active with that of the east. Shortly thereafter, when government contracts went largely to a "cost plus" basis, "Pittsburgh Plus"

made little difference. Even those manufacturers who were not supplying war materials reaped the benefit of the higher price level then existing.

As a result of this action of the War Industries Board, and of the implied understanding that the condition existing because of it would be permanent, many western manufacturers made large plant additions.

In July, 1918, the War Industries Board restored "Pittsburgh Plus" and made Pittsburgh the sole steel basing point. No one appears to know what influence was brought to bear to have this done. A vigorous protest was made by western manufacturers, without result. But with the close of the war the situation became decidedly serious to western manufacturers, especially to those who had invested heavily in plant additions.

With the stimulus of war trade removed, with prices seeking lower levels and with slackened business, these western manufacturers faced enormous losses because, with the "Pittsburgh Plus" differential restored and advanced with increased freight rates from $3.78 to $5.40 at Chicago, they were unable to compete with Pittsburgh manufacturers.

Western Manufacturers Organize

This action of the War Industries Board is important in the consideration of this controversy since, because of it, the western manufacturers, rendered desperate, began their organized effort to bring about the abolition of "Pittsburgh Plus."

An interesting sidelight on the order of the War Industries Board is afforded by the fact that prior to 1918, nuts, bolts and rivets were not sold on the "Pittsburgh Plus" basis. With the restoration of "Pittsburgh Plus" in July, 1918, however, these three articles were sold "Pittsburgh Plus," and continued to be sold thus until 1923, when the "Pittsburgh Plus" charge on them was removed by the mills.

There was no change in relative conditions either prior to 1917 or subsequent thereto which would seem to warrant this action with reference to nuts, bolts and rivets.

Also, during all the periods when "Pittsburgh Plus" was temporarily abandoned on plates, shapes and bars, it remained in full force on wire, nails, sheets and other products on which control is more closely held. This indicates that the device is well within the control of the mills.

History of the Case

The abolition by the War Industries Board of Chicago as a steel basing point wrought havoc with western industry. After numerous individual protests against this change, an organized effort to end "Pittsburgh Plus" actually started in January, 1919, with the formation of an organization known as the "Western Association of Rolled Steel Consumers." This consisted of a number of western manufacturers of articles made from rolled steel who organized for the sole purpose of bringing about the abolition of "Pittsburgh Plus."

With the formation of the Western Association of Rolled Steel Consumers, the "Pittsburgh Plus" controversy rapidly

became acute. Many manufacturers and several communities, notably Duluth, had previously objected to the system and had sought to bring about its removal, but these were sporadic efforts and were utterly unavailing.

The first action of the new association was to seek to bring about the removal of "Pittsburgh Plus" through amicable negotiations with the steel mills. The association employed an eminent attorney, the late John S. Miller of Chicago, who had much correspondence with Judge Gary on this subject. Finally, in July, 1919, Judge Gary himself suggested that the matter be referred to the Federal Trade Commission for adjudication. This was done and an application was made to the commission for a complaint against the United States Steel Corporation and its subsidiaries, and also against all of the so-called "independent" mills.

This application was heard by the commission at Washington in December, 1919. After a week's argument in which some of the most eminent counsel in the country were engaged, the commission took the matter under advisement, and in the following June, 1920, handed down a decision denying the application. This was by the close vote of three to two.

H. G. Pickering, of Superior, Wisconsin, was then engaged as counsel by the Western Association of Rolled Steel Consumers to replace Mr. Miller, whose health was failing and who died a short time thereafter.

Rehearing Asked

Mr. Pickering made an application for a rehearing, which was granted in September, 1920. The matter was again heard by the commission in November and December, 1920. Again the commission took the application under advisement.

The commission's personnel had changed somewhat and on April 30, 1921, a decision was handed down, once more by the narrow vote of three to two, granting the complaint. This complaint applied only to the United States Steel Corporation and eleven of its subsidiaries, the purpose being to simplify the case, inasmuch as any decision made against the United States Steel Corporation would similarly affect all other steel producers.

Investigators and attorneys for the commission at once began the gathering of evidence, and the actual hearing of testimony was begun in Milwaukee, January 30, 1922. The commission's case was concluded at Chicago in January, 1923, at which time the defense of the respondent, the United States Steel Corporation, was begun. This was concluded the following July. Rebuttal testimony on the part of the commission begins December 10, 1923.

The hearings were conducted by John W. Bennett, special examiner of the Federal Trade Commission, and were held in Chicago, Milwaukee, Minneapolis, Duluth, Washington, Chattanooga, Birmingham, New York, Pittsburgh and Detroit. This is the history of the now famous case, admitted to be the most important ever to come before the Federal Trade Commission, and by Judge Gary termed one of the greatest lawsuits ever tried in this country.

Chronology of Case

For the purpose of convenience, a chronology of actual steps taken in this case is given. It is as follows:

July 9, 1919.—Agreement between Judge E. H. Gary, on behalf of the United States Steel Corporation, and John S. Miller, representing the Western Association of Rolled Steel Consumers, who together appeared before the Federal Trade Commission, that Mr. Miller should file an application for a complaint.

August 1, 1919.—Application for a complaint against the United States Steel Corporation and its subsidiary companies, and the Inland Steel Company; the Interstate Iron & Steel Company, and the Steel & Tube Company of America, filed by the Western Association of Rolled Steel Consumers.

August 22 to August 30, 1919.—Applications for complaint filed before Federal Trade Commission by the following:

Superior, Wis., Commercial Club.

State of Minnesota.

Joint Committee of Civic Organizations of Duluth, Minn.

City of Duluth.

Southern Association of Steel Fabricators (Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Texas and Virginia).

The Birmingham Civic Association and the Birmingham Steel Base Bureau.

August and September, 1919.—Answers filed by respondents and others.

December 2-6, 1919.—"Pittsburgh Plus" hearing before the Federal Trade Commission at Washington, Commissioners Murdock, Thompson and Colver being present.

July 24, 1920.—Application for complaint denied. Commissioners Murdock, Colver and Gaskill voted against the issuance of the complaint. Commissioners Thompson and Pollard voted for it.

August 1, 1920.—Application for rehearing filed by H. G. Pickering, now retained as counsel by the Western Association of Rolled Steel Consumers.

September 1, 1920.—An advance of 40 per cent in freight rates, increases the "Pittsburgh Plus" charge at Chicago from $5.40 per ton to $7.60. The arbitrary Birmingham base price is increased from $3 per ton to $5 per ton above the Pittsburgh base price.

September 20, 1920.—Federal Trade Commission grants rehearing and orders re-argument. Voting for rehearing: Commissioners Thompson, Pollard and Colver. Voting against rehearing: Commissioners Murdock and Gaskill.

November 15-17, 1920.—Rehearing at Washington. Commissioners Murdock, Thompson, Pollard and Gaskill present.

Appearance by the late Clifford Thorne, on behalf of the American Farm Bureau Federation, in opposition to practice and filing by him of comprehensive brief and argument with commission. Also appearance by F. J. Arthurs, who offered a resolution of the National Association of Purchasing Agents (4,000 members) condemnatory of "Pittsburgh Plus." Arguments by the applicants lasting three days.

Dcember 6, 7, 8, 9, 1920.—Arguments by respondents and reply arguments by applicants. Commission takes application under advisement.

April 30, 1921.—Federal Trade Commission issues a complaint against the United States Steel Corporation and its subsidiary companies which, in brief, states that there is reason to believe that the "Pittsburgh Plus" practice constitutes an unfair method of competition under the Federal Trade Commission Act, and price discrimination as forbidden by the Clayton Act. Voting for the complaint: Commissioners Thompson, Pollard and Nugent. Voting against the complaint: Commissioners Murdock and Gaskill.

July 1, 1921.—Attorneys for commission begin gathering evidence.

January 30, 1922.—"Pittsburgh Plus" hearings open at Milwaukee, Wisconsin, before Special Examiner John W. Bennett. Government opens its case and offers evidence.

March 1-November 1, 1922.—Hearings at Chicago, Minneapolis, Duluth, Chattanooga, Washington. Government concludes its direct testimony at Washington.

January 19-July 17, 1923.—U. S. Steel Corporation puts in its defense at hearings held at Chicago, Birmingham, New York, Pittsburgh, Detroit and Washington. Commission sets August 6 as date for beginning of rebuttal testimony.

July 1, 1922.—A reduction of 10 per cent in freight rates reduces "Pittsburgh Plus" charge at Chicago from $7.60 to $6.80 per ton. No change is made in the arbitrary base price at Birmingham, which remains at $5 per ton above the Pittsburgh base price. (The carload freight rate from Pittsburgh to Birmingham is now $11.60 per ton.)

July 28, 1923.—"Pittsburgh Plus" Committee of four states—Illinois, Iowa, Minnesota and Wisconsin—whose legislatures appropriated approximately $55,000 to assist in the campaign for the abolition of "Pittsburgh Plus," petitions Federal Trade Commission to postpone rebuttal testimony until December 10, to allow time for a survey of economic conditions and collection of additional data for rebuttal testimony.

August 1, 1923.—Rebuttal testimony set for December 10 by commission.

August 28, 1923.—National Association of Attorneys General condemns "Pittsburgh Plus."

September 15, 1923.—Organization of "The Associated States Opposing Pittsburgh Plus" is formed by the joint "Pittsburgh Plus" committees of Illinois, Iowa, Minnesota and Wisconsin.

Associated States

During 1921 the legislatures of five mid-western states—Illinois, Iowa, Minnesota, Missouri and Wisconsin—passed resolutions condemnatory of "Pittsburgh Plus." Several of these states instructed their attorneys general to intervene in the pending case. The senate of Georgia also passed a condemnatory resolution in 1921.

In 1923 the legislatures of four mid-western states, recognizing the injury done by "Pittsburgh Plus," both because of its effect upon the consumer in increased commodity prices and its damaging effect upon industry, appropriated in the aggregate, the sum of $54,900 to aid in the campaign for the abolition of this practice.

These states and their respective appropriations were: Illinois, $25,000; Iowa, $10,000; Minnesota, $10,000; Wisconsin, $9,900.

Iowa, Minnesota and Wisconsin each appointed commissions consisting of the governor and attorney general of the state to supervise the expenditure of their appropriations. Illinois appointed a commission of seven to do likewise. This resulted in thirteen men having charge of the fight against "Pittsburgh Plus" on behalf of these four states. These commissions met in July, 1923, and formed a joint commission for concerted action. B. F. Baker, Vice-President and Treasurer of the Kewanee Boiler Company, of Kewanee, Illinois, chairman of the Illinois commission, was made chairman of this joint commission, and Attorney General Herman L. Ekern, of Wisconsin, was made secretary.

Several meetings of this commission were held; economists and counsel were employed, and other steps taken to further the purposes of the campaign against "Pittsburgh Plus." In September, 1923, it was determined to expand this organization by inviting other states to join in the movement through their governors and attorneys general. No financial aid was sought of these other states, but their commissions were asked to act in an advisory capacity, and also to set forth specifically for the benefit of the Federal Trade Commission the injuries suffered by each state because of "Pittsburgh Plus."

This invitation met with a gratifying response, so that by December 5, 1923, thirty-two states had joined in this campaign, their organization being known as "The Associated States Opposing Pittsburgh Plus." These states are as follows:

Alabama	Kentucky	New Mexico
Arizona	Louisiana	North Dakota
Colorado	Maine	Oklahoma
Delaware	Massachusetts	Oregon
Florida	Michigan	Rhode Island
Georgia	Minnesota	South Carolina
Idaho	Mississippi	South Dakota
Illinois	Missouri	Utah
Indiana	Montana	Wisconsin
Iowa	Nebraska	Wyoming
Kansas	Nevada	

During the legislative season of 1923 the legislatures of several other states also adopted resolutions condemnatory of "Pittsburgh Plus," these being: Colorado, Indiana, Michigan, Nebraska and South Dakota, which, added to the five states whose legislatures had protested in 1921, and the senate of Georgia, made a total of eleven states which have formally protested against "Pittsburgh Plus" through their legislatures.

Purpose of Campaign, and Remedy

Those protesting against the "Pittsburgh Plus" practice and asking its abolition must, necessarily, ask some specific remedy.

Doubters as to the efficacy of the campaign which is being waged have suggested that in the event of the abolition of "Pittsburgh Plus," a substitute for it might be devised by the mills. The substitute most frequently suggested is that the mills would simply make different prices for their product at different locations, which would, in effect, be the same as the Pittsburgh prices, including the present "Pittsburgh Plus" differential.

However, the purpose of the pending litigation, if attained, would obviate this. The applicants for the complaint ask not only that "Pittsburgh Plus" be abolished, but that steel be sold at each mill at a price based upon production cost, plus a fair margin of profit.

In addition, an order granting the purchaser the right to buy f. o. b. at the mill, and pay his own transportation charges, that is, preventing the mill from quoting only a delivered price, would be effective in breaking down "Pittsburgh Plus," as it would deprive the mills of the power to quote only delivered prices, as they do now. These delivered prices include the "Pittsburgh Plus" charge, and a mill quotation would make the inclusion of this fictitious charge difficult, if not impossible.

The mill price, of course, would not necessarily remain fixed. It would be determined by conditions in different markets, but the fundamentals of price-basing are contained in this suggested order, and, it is contended, this can be done by the application of existing law.

The remedy is sought through section 2 of the Clayton Act, designed to foster free competition, and section 5 of the act generally known as the Federal Trade Act, designed to prevent unfair competition.

Long and Short Haul

The contentions of the mills are strikingly similar to those put forward by the railroads a few years ago in support of their "long and short haul" policy. By this, in many instances, commodities were hauled from the point of origination of shipment through smaller towns to larger cities at far greater distances, and yet the freight charge to these smaller towns was greater than to the larger cities beyond.

The freight charge was frequently the through charge from the point of origin to the large city, plus the return local charge to the smaller town, even though carload shipments were dropped off at the small town without any further actual hauling.

The railroads defended this practice by arguments quite familiar in the "Pittsburgh Plus" case. There was the familiar "economic necessity" argument; the familiar "stabilization" argument; the familiar argument that "conditions would be chaotic" if this practice were abandoned; the familiar argument that the practice was "good for the consumer in the small town;" the familiar argument that trade conditions would be totally upset and long-time precedent violated, and most of the other arguments that have been advanced in support of "Pittsburgh Plus."

In charging for a shorter haul at the rate of a longer haul, plus the return haul, the railroads likewise pocketed an unearned profit. Naturally, they defended it vigorously and predicted all sorts of disaster were it abandoned.

It took a long time to bring about the abolition of this injustice, but finally, through the instrumentality of the Interstate Commerce Commission, it was abolished. Strangely enough, it worked no havoc in industry; resulted in no chaos, and was apparently utterly reconcilable with economic law. Curious as it may appear in the light of present-day arguments of the steel mills, it actually resulted in stimulating industry at points which theretofore had languished because of discrimination against them.

Press Comment and Public Opinion

A great body of public opinion has been aroused on the subject of "Pittsburgh Plus." At the inception of the campaign in 1919, little was known of the subject. But as the tale of "Pittsburgh Plus" was unfolded and its results became more and more apparent, public protest gained greater and greater volume.

This was early manifested by expressions of press opinion. A vast volume of newspaper, magazine and trade journal comment has appeared, first in the mid-west, then in the south, and soon spreading over the entire nation.

This has been almost uniformly directed against "Pittsburgh Plus." There have been few exceptions to this rule—none of importance.

During the past two years "Pittsburgh Plus" has become a non-partisan political issue in a number of states. Several state political platforms have contained planks directed against "Pittsburgh Plus." The farm bloc in congress has taken a strong stand against it. Farm journals are united against it, and if newspaper and magazine comment is a fair test of public opinion, the steel mills and the Pittsburgh district stand almost unique and alone, aloof from all other classes and sections of the nation, in their upholding of this steel trade device.

A Nation-Wide Protest

Thus the chorus swells, east and west, north and south, the chorus of protest against this practice.

Industry and agriculture; consumers and the press representing them; economists; political leaders; all the various component elements which go to make up the vast body of American public opinion are being welded together into a

united mass of opposition to "Pittsburgh Plus." The question is before the Federal Trade Commission. It is likely to be heard in the halls of congress.

From the nucleus of the tiny body of forty manufacturers gathered together in a room in Chicago in January, 1919, the army of protestants has gathered into an avalanche of indignation against this practice.

Opposing this are about 200 steel producers, the jobbers of steel, the interests of Pittsburgh and its adjacent territory, and a few trade publications whose policy it is to support the mills.

The numbers of those opposing the practice are daily increasing. Those upholding it, if not dwindling in numbers, are at best remaining stationary.

Will force of numbers, of public opinion and of what the public believes to be its best interests, or the influence of the steel producers and of Pittsburgh prevail?

The future will tell.

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